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and

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Equity and Growth through Economic Research
(PROJECT EAGER)
ALL AFRICA CONFERENCE
"Africa in the Third Millennium: Trade and Growth with Equity"
CONFERENCE PROCEEDINGS

Boipuso Hall
Gaborone, Botswana

18-20 October, 1999

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This report is in memory of Dr. Jeffrey Metzel, Senior Economist/Associates for International Resources and Development (AIRD). His commitment to Africa, devotion to his profession and dedication to improving the lives of others will be remembered.

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Annexes:

Acronyms

AERC	African Economic Research Consortium
AIPA	Africa Institute for Policy Analysis
AIRD	Associates in International Resources and Development
BOCCIM	Botswana Confederation of Commerce Industry and Manpower
BOTT	Build, Operate, Train and Transfer
CODESRIA	Conseil pour le Developpement de la Recherche en Sciences Sociales en Afrique
CREA	Centre de Recherche Economiques Appliquées
DRC	Democratic Republic of Congo
EAGER	Equity and Growth through Economic Research
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EPRC	Economic Policy Research Center
FDI	Foreign Direct Investment
FINSAP	Financial Sector Adjustment Program
GDP	Gross Domestic Product
HDI	Human Development Indicators
HIID	Harvard Institute for International Development
IBI	International Business Initiatives
IDRC	Centre de recherches pour le développement international
IRIS	Institutional Reform and the Informal Sector, Howard University
ISSER	Institute of Statistical, Social and Economic Research
ISTI	International Science and Technology Institute
LRJ	Legal Regulatory and Judicial Reforms
MISR	Makerere Institute for Social Research
MSE	Micro and Small Enterprises
MNC	Multi-National Corporations
NGO	Non-Governmental Organization
OAU	Organization of African Unity
ODA	Overseas Development Assistance
PSGE	Public Strategies for Growth and Equity
REPOA	Research on Poverty Alleviation
SADC	Southern African Development Counsel
SAEN	South African Enterprise Network
SAPP	Southern African Power Pool
SISERA	Secretariat for Institutional Support for Economic Research in Africa

SMME	Small, Micro and Medium Enterprises
STD	Sexually Transmitted Diseases
UCAD	Université Chiekh Anta Diop
UNDP	United Nations Development Program
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
WTO	World Trade Organization
WAEN	West African Enterprise Network

EAGER ALL AFRICA CONFERENCE

Gaborone, Botswana

October 18 - 20, 1999

I. Executive Summary

The seventh and final EAGER Workshop differed from the previous EAGER semiannual workshops in both scale and objectives. This was the last large-scale public event for the EAGER Project. Also, the All Africa Conference provided a forum where EAGER research results were used as a springboard for broad discussion of future directions for African policymaking. The conference was the host to more than 170 researchers, policymakers, representatives from donor institutions and private sector participants and attracted high-ranking African decision-makers, including the former president of Botswana, Sir Ketumile Masire.

The Botswana All Africa Conference was also longer than preceding workshops since it included a day before the main conference for EAGER researchers to present recent research findings. The main conference was less focused on specifically EAGER research results and followed a thematic approach for which keynote speakers set the broad outlines of a particular, broad issue. Following the keynote presentation, workshop participants attended one of a set of breakout sessions, each of which were pertinent to the keynote address. Following the breakout sessions, one page of findings from each session was then reported to the plenary group.

The objective of this format was to permit greater and more efficient exchange between the researchers, policymakers and private sector representatives in consideration of some important economic issues facing countries on the continent. In setting the agenda for this endeavor, Workshop organizers canvassed a broad cross-section of the EAGER research cadre about what these *most important economic issues* were. Besides the agenda itself, organizers created a set of questions to be used in directing discussion to help focus the debate. This reinforces EAGER's goal of injecting more and better economic analysis into public policy debates in Africa.

The following summary describes the major concerns brought out in each of the three *keynote addresses – breakout group discussion* sessions. Highlights of the two plenary panel discussions that ended the conference are also provided.

Besides the welcoming address by Sir Ketumile Masire, Former President of the Republic of Botswana, the conference was also welcomed by Robert C. Krueger, US Ambassador to Botswana, Robert Okello, Director, ECA Sub-regional Development Center for Southern Africa, and Edward Spriggs, Director of USAID's Regional Center for Southern Africa. In addition to their courteous welcome, each of these speakers gave encouragement to workshop participants to address topics that they thought were important. Sir Ketumile Masire emphasized the importance of fiscal responsibility alongside sensible public investments. Ambassador Krueger emphasized the importance of open trade among African countries. Robert Okello, ECA, whose organization was a cosponsor of the Conference, emphasized the importance of collaboration in reaching the goals of poverty reduction and an improved standard of living in Africa. Edward Spriggs, USAID focused on the importance of more and better domestic analysis in deciding policies in Africa.

Public Policies for Accelerating and Sustaining Growth

The first thematic session addressed *public policies for accelerating and sustaining growth and development*. The keynote speaker, Mr. Harris Mule, focused on the impacts of policies on African nations' economic performance, past and present. In laying out what he thought was the most important agenda for Africa in the new millennium, Mr. Mule proposed an ambitious set of goals.

...Africa must refashion its institutions and put in place policies that will foster growth with equity. Output and factor productivity must be increased. Social welfare must be improved. Poverty must be reduced, and Africa must position itself to compete in the global economy. To do all these, Africa must institute systems of economic governance that foster transparency and accountability and by that improve economic efficiency.

In his discussion of these goals, Mr. Mule emphasized the importance of effective institutions and leadership. While noting that sound government policies are never, by themselves, sufficient for economic growth, they are essential and it is up to African policy makers and their advisors to identify them. In this, Mr. Mule noted the need for better research capability in Africa and cited strides in that direction.

Following the keynote address, the breakout sessions addressed:

The Role of Leadership in Implementing Post reform Growth Policy
Developing Financial Markets in Africa
Public Sector Saving and Debt Reduction
Reducing Poverty by Expanding Employment, and
The Economic Impact of HIV/AIDS.

Modalities for Expanding the Private Sector

The second thematic session began with a keynote address by Kwasi Abeasi, of the Private Enterprise Foundation, Ghana. Mr. Abeasi placed the importance of the private sector in context by describing Ghana's earlier experiments with public-sector-led development. From being a well developed, if bifurcated economy at the time of independence, Ghana's application of heavy state intervention in markets and enterprises led the country into a precipitous decline in its second and third decades. Learning from those experiences, the government has, over the past decade, attempted to reduce direct participation by the government in markets. The government has instead used public institutions and policies to create an enabling environment for private sector growth and development.

Mr. Abeasi emphasized that modalities for private sector growth require more than simply getting government out of the way. Government institutions are still needed to ensure that a nation's economic framework is adequate to encourage investment and business growth. This requires both material infrastructure and human capacity – both of which are stretched thin in Africa today. While inadequate funding was cited as a major hurdle for improving the operation of institutions and retaining more able staff, he also noted that the strong tendency toward centralization in Africa does not promote efficiency.

In his discussion of ways in which the performance of public sector institutions could be improved, Mr. Abeasi cited simplified regulations and better processing of private sector application and registration requirements, a more collaborative interface between the public and private sectors, a replacement of bureaucratic discretion with transparent decision rules, and improved accountability within the public sector. In his conclusion, Mr. Abeasi gave as the most important targets for expanding economic growth in Africa:

"*the provision of macroeconomic stability, the development of the private sector as the engine for rapid and sustainable growth and the provision of good governance with its implied high levels of accountability, transparency and participatory approach involving all sections of the citizenry*".

Following the keynote address, the breakout sessions addressed:

Overcoming the Barriers to Increased Productivity and Competitiveness
Opportunities for African Trade and Investment, Foreign and Domestic
Strengthening Family-Owned and Other Local Businesses, and
Enhancing Corporate Governance Through Improved Transparency and Accountability

Africa in the Global Economy

The third and final keynote address – breakout discussion session focused on the necessary conditions for Africa's participation in the global economy. The keynote address was given by Mr. Felix Kani, a program economist for the Southern Africa Development Council, SADC.

Mr. Kani proposed that Africa needed to do more to integrate its nations' economies as a first step toward competing in the world economy. He then described the experience of the SADC countries in creating a regional grouping (building blocs for a more integrated Africa economy) as an example of what could be achieved. First among the objectives of SADC is an equitable distribution of the benefits among the countries attempting to harmonize their economic policies.

While efficiency gains provide benefits, the unequal starting point of countries in a region requires that attention be paid to how those benefits will be distributed between countries and industries.

SADC has reduced tariffs for intra regional trade and this has helped to expand such trade. The secondary effect of this (increased investment) has not reached hoped-for levels but evidence shows that it is higher than would have been the case without the removal of regional barriers to trade. Currently, countries in the region are in advanced stages of negotiating a free trade zone in southern Africa.

SADC is also being used to support policy harmonization based on indirect interventions in member states' financial markets, thus improving the likelihood that macroeconomic policies will continue to be liberalized. So far, all member countries have liberalized their current accounts and their central banks are introducing electronic payments and settlement systems in the region.

The Protocol on Shared Watercourse Systems, the first sectoral legal instrument to be developed in SADC, took force on 28 September 1998. The signing of the Protocol in 1995 and the establishment of a new SADC Sector on Water in 1996, suggests the importance SADC places on water resources and shows the need for an integrated approach to the development and management of water resources in the region. Furthermore, member states have agreed to cooperate in the generation and distribution of electrical energy through the Southern Africa Power Pool. This cooperation will generate large efficiency gains with knock-on effects for industrial productivity and competitiveness.

The Transport, Communications and Meteorology Protocol was invoked on 6th July 1998. Through this, member states have taken up the challenge to develop and provide an efficient, cost effective and well-integrated transport and communications network that will ease the smooth flow of goods, persons and information across borders. The major achievement so far has been the building and rehabilitation of roads to link Member States. The Projects that have recently been completed include the Trans-Kalahari and Trans-Caprivi highways. These routes have started to make an impact on cross border travel of people, goods and services.

SADC's progress in negotiating and finalizing protocols in various areas was highlighted, but Mr. Kani also noted that the protocols do not represent an end in themselves. For the protocols to be meaningful and beneficial, it is crucial that the interests of each member state are considered during negotiation. In this way, the product will better represent the collective aspirations of the region. This is the best way to ensure balanced development of the whole region.

Following the Keynote address, breakout discussions addressed:

Lessons for Africa from the Recent Asian Experience
Implications for Africa of WTO, EU, and US Initiatives
Reducing Barriers to Cross-Border Trade, and
Regional Integration and Cooperation.

Panel Discussions of Education and Institution Building in Africa

The final two plenary sessions of the conference provided an opportunity for key participants to address the important topics of how to ensure better policy analysis capability in Africa and what better policy analysis might lead to.

The members of the first plenary panel were unanimous in their support for better educational capability in Africa regarding advanced economic training. Toward this objective, Abdoulaye Diagne made several recommendations. These include greater regional sharing of educational resources, increasing resources available for education, encouraging the use of African researchers by African policymakers, and the development of local research institutions to address the problems confronted by African economies.

Njuguna Ng'ethe cited the importance of the overarching political environment within which training programs are developed, giving particular reference to the stifling effect of a single "party-line". He was optimistic that attitudes are opening in Africa and that true critical analysis of policy proposals is becoming more commonplace. Germina Ssemogerere noted the benefits accorded economic training in Africa through the efforts of regional, donor-supported institutions such as AERC. However, while capacity within her institution has been helped by such support, funding students during their research still presents problems. To be sustainable, educational programs must recover their costs, but this does not solve the problem of support for research by students.

Dominique Njinkeu summarized the efforts of AERC to support greater economic training capacity in Africa. These include supporting capacity building for policy research and institution building, supporting the use of African economists in research and policy formulation, and ensuring that research is relevant to policy needs. These goals have been pursued by supporting policy research directly and by supporting graduate education in economics in Africa. AERC has strengthened ties with ECA and OAU and plans to collaborate more with national training and policy institutes such as CREA in Dakar and EPRC in Kampala.

Diery Seck summarized the efforts of SISERA to support economic training capacity in Africa by providing both financial and technical assistance to economic research institutions. SISERA has helped research institutions to structure themselves as sustainable institutions. Support is provided as core grants for partners and seed grants for emerging centers. In addition, funding for collaborative research, sabbatical programs, and connectivity to ensure that the centers form a network is available. Support is also provided for improving the managerial capability of these research centers.

The final panel discussion addressed the broad topic, *Africa in the Third Millennium*. The first speaker, Mr. Frank Ofei offered an African Economic Vision under which each country should strive to have a well-developed economy that is resilient to shocks and that gives a high standard of living to each citizen. In pursuing this objective, he proposed that regional integration, open dialogue between the private sector and government and wise use of development assistance to improve research and policy development capabilities were essential.

James Mtonga focused on the need to improve human welfare in African countries. He discussed improved prospects for agricultural production through research and extension, greater investments in a clean water supply, greater and more appropriate investments in health care with particular regard to preventive and public health, and, improved education. Mr. Mtonga noted that some developing countries who addressed these issues had enjoyed successful economic growth.

Mr. Claude Andreas stressed the importance of the private sector for generating economic growth. In particular, the need to improve labor productivity, infrastructure, access to finance and access to markets were all cited as important. Mr. Andreas noted that the private sector is Africa's most likely source for employment growth. Therefore Africa's effort to reduce widespread poverty must hinge on private enterprise.

Joseph Abbey focused on the importance of good governance to Africa's prospects for sustained economic growth. It is important that African governments must develop and maintain a level playing field for the private sector. They must encourage competition and agree on a framework for coming to a consensus on development policy. Governments must keep pace with developments in the world trading community (WTO), and with globalization more generally. Also, they must find ways to attract foreign investment and to develop local enterprises.

To do this, Africans should nurture civil societies that have the capacity to assess development policies and reject irrelevant or inappropriate projects that will only increase debt without generating new resources to pay it off. African citizens also need to ensure a consensus within the country on development priorities, and hold governments accountable for their performance.

II. Introduction to Conference Proceedings

The EAGER All Africa conference, held October 18 through October 20 was convened in Gaborone, Botswana. A joint undertaking of USAID's Equity and Growth through Economic Research (EAGER) and the United Nations' Economic Commission for Africa, the conference brought together economic researchers, private sector representatives, government policymakers and representatives from the donor institutions in a forum targeting improved policy development in Africa. Following a day of presentations of current EAGER research, the main conference began Tuesday, October the 19th with welcoming remarks from the former President of Botswana, Sir Ketimule Masire, US Ambassador to Botswana Mr. Robert Krueger, and others.

The following report summarizes the presentations, discussions and responses of the second two days of the conference. It is not a verbatim report of what was said, but a compilation of rapporteur notes, speaking points and other materials collected during or after the conference. The report of the first day of the conference, during which EAGER researchers reported their research findings in fora where they could be discussed by peers and other interested parties, is attached as an annex to the report.

Tuesday Morning 10/20/99 -- Welcoming Speeches

Opening Remarks by Sir Ketumile Masire, Former President, Republic of Botswana

The EAGER All-Africa Conference in Gaborone, Botswana titled "Africa in the Third Millennium" was opened with a welcoming speech by the Former President of the Republic of Botswana, Sir Ketumile Masire.

Ladies and Gentlemen

I would like to thank the organizers of this conference on **Equity and Growth through Economic Research** for inviting me to speak on this occasion. I am also grateful that you have decided to choose Botswana as the venue for the conference. While Botswana has a lot to benefit from this gathering, it also has a lot to offer. I believe, therefore, that during their short stay in the country, the visitors will not only focus their attention on the agenda of the conference. I hope they will definitely find other interesting pursuits outside the confines of the conference hall.

Like other countries in Africa, Botswana is facing many development challenges. The economic transformation of Botswana, like that of the rest of Africa, has been a subject of intense research. Over the past four years many research institutions and researchers in most African countries have been keenly interested in identifying the means of expanding and sustaining trade and growth in Africa.

Many research organizations of international repute, including the Harvard Institute for International Development (HIID) and Associates for International Resources and Development (AIRD), have played a critical role in helping decision makers in the public and private sectors develop policies and strategies that will promote equitable economic growth in Africa.

Particularly noteworthy have been the efforts of the Equity and Growth through Economic Research (EAGER) which is attempting to tackle the daunting development challenges facing many African countries. Many countries struggle with civil strife, high population growth rates, HIV/AIDS, large debts and small investment flows, and an impoverished human resource base. Furthermore, much of Africa is not fully integrated into the global economy.

We believe, therefore, that Botswana is an especially appropriate place to have this conference since we have tackled these problems, some with more success than others. Our National Development Plan 8, which represents our development agenda for the current plan period, besides articulating our planning objectives, also abounds with examples of our accomplishments and failures in dealing with some of these issues.

The conference will, among other things, explore the contours of adequate government intervention under the topic, Public Policies for Accelerating and Sustaining Growth and

Development. In this context, the discussions relating to the role of leadership in public policy reform, policy management and implementation, will be important as nations strive to maximize both economic policy efficiency and equity, and to balance cooperation and competition.

The topic, Overcoming Barriers to Increased Productivity and Competitiveness, is also an interesting one to us in Botswana. We have attempted to deal with this problem by steadfastly adhering to the principles of openness, transparency, good governance, and promotion and development of the private sector. In this regard the Government undertook a review of the size and structure of the public sector, including the parastatals. The proposed privatization of certain activities performed by Government is one of the consequences of our public sector reforms.

Botswana has also thrived as a result of the successful partnerships it forged both in the region and internationally. As a country with a small population, and thus a small domestic market, Botswana has had to look for markets for its products and services beyond its political boundaries. The Government of Botswana recognizes the value of regional economic integration and its opportunities for cooperation in the development of infrastructure. This is one of the ways of dealing with the harsh realities of a borderless global economic environment.

I am encouraged by this eminent international group gathered here to discuss common problems, common solutions and ways that we can live and prosper on this continent. But I would also like to caution you that, during the next days, please do not forget that talking is only productive when words become actions. Real change can only be accomplished when policy makers, elected officials and the general population believe in what they are doing. It is up to people of your qualification and position to convince and demonstrate the changes that will benefit individual countries, their populations and Africa as a whole.

Ladies and Gentlemen, on behalf of my country, I welcome you all to Botswana and wish that you have a productive and stimulating conference.

Welcoming Address by Ambassador Robert C. Krueger, United States Ambassador to Botswana

Noting his pleasure to be welcoming the presenters, speakers and participants to the EAGER All Africa Conference, Ambassador Krueger commended the humility of the previous speaker, former President of the Republic of Botswana Sir Ketumile Masire, and offered to expand on Botswana's important economic and political achievements

Honored guests and participants:

Through wise choices in both economic and political policies, Botswana has achieved successes that are the envy of any country, African or non-African, developed or developing. Botswana enjoys one of the highest GDP growth rates in the world, averaging 7.3 percent between 1970 and 1995. With per capita income of US$3260, Botswana is one of only a few African countries classified as a middle-income country. It has maintained public spending at a level well below government income, and to the extent that a government can do this, it has maintained stable macroeconomic conditions. Trade has expanded significantly in recent years, but Botswana still enjoys a positive trade balance.

While Botswana's achievements have doubtlessly been made more accessible through its endowment of precious mineral resources, we have seen in other richly endowed nations that wealth in natural resources is not a sufficient condition for strong national economic development. Through good economic policy, Botswana has prudently husbanded its resources and the monetary benefits that exploiting those resources have generated. The government has made investments in both its human capital and its physical infrastructure and has worked to build up non-mineral based economic activities. Botswana has also benefitted from a stable, democratic pattern of governance. It is among the small cadre of African nations who have had peaceful changes in leadership. Botswana was recently assessed by Transparency International to have the cleanest government in Africa

Nevertheless, for all these benefits and achievements, it is well to keep in mind the global context. Botswana is a country the size of Texas with a population the size of a large Texan city and an economy that is small by world standards. In this comparison, it is important to consider the tremendous benefits accorded the Texan economy by virtue of its being a part of a wider trading area. Texas does not have to produce its own cars. It can pursue its natural advantage in oil production or agriculture or financial services and buy all of the cars it needs from California and Michigan. Free trade between Texas and the rest of the United States is permanently protected in our constitution, and we have put this large market to good use.

Botswana, on the other hand, is a small economy surrounded by several larger economies, and trade among these countries, while good compared with other regions in Africa, is not free. The borders between Botswana and South Africa, or Zimbabwe, or Zambia are not as open as the borders between Texas and Arkansas, or Louisiana, or New Mexico. Furthermore, the infrastructure for linking these countries through Botswana is not well developed. These factors count as costs for the economy of Botswana and they act as a drag on its continued development.

Open trade among African countries is one of the most crucial issues to be addressed by decision-makers and policy analysts – in short, the EAGER constituency – here, in Africa and now, at the turn of the millennium. Without expanding your markets across national borders, Africa will continue to be burdened with costs that the rest of the world is busy reducing. Africa must work to reduce the burden placed on its many small economies by barriers to trade. This means increasing trade among neighboring countries and harmonizing macroeconomic policies. It means investing in infrastructure that can bridge national boundaries. Freer trade will generate larger markets for businesses across Africa and larger markets are what African economies need, if they are to compete on a more equal footing in the world trading system.

Botswana provides an example to the rest of Africa and to developing countries overall, that fiscal discipline, wise public investments, and a healthy natural resource endowment are a powerful combination for national economic growth. To those participants from countries who do not enjoy such a natural resource endowment who might be asking – “will two out of three do?” -- the answer, resoundingly, is yes. Fiscal restraint and wise public investments will usually surpass their alternatives. The benefits that Botswana enjoys from trade should also be recognized by this audience.

As this conference on Africa in the Third Millennium gets underway, I encourage you to examine Botswana’s example in prudent economic management and in support of freer trade. It is my sincere hope that you will in this way and others, advance the idea of freer trade in Africa and find effective means for carrying out policies that achieve greater trade among African countries.

Welcoming Statement by Robert Okello, Director, ECA Sub-regional Development Center for Southern Africa

Honored guests and participants:

On behalf of the Executive Secretary of the Economic Commission for Africa, it is my singular honor to welcome you to the All Africa Conference on Equity and Growth through Economic Research. First, I would like to express our gratitude to the people and the Government of the Republic of Botswana, for the warm reception we have received since our arrival. Secondly, I wish to pay tribute to our colleagues of the US Agency for International Development (USAID) for their generous support to the EAGER Project over the past four years. Without your dedication, we would certainly not be here today. I hope that you will find it possible for us to build on this relationship in future.

As you are all aware, the main purpose of the Conference is to disseminate the results of the research of the EAGER project initiated four years ago, and to enable interchange of ideas with government officials and policy makers, researchers, representatives of regional bodies, the private sector and cooperating partners within Africa. The EAGER Project aims to help decision makers in the public and the private sectors to develop policies and strategies that will promote economic growth and equity in Africa.

The issues before this Conference are indeed in consonance with the priorities and strategies of the Economic Commission for Africa. One of the guiding principles of our work is to forge effective partnerships to leverage our resources to serve Africa better. In this regard, we are very keen on sharing the findings and the policy implications emanating from the collaborative research effort, not only among those now present, but also with other partners in our other networks. Our strategy is to become a networker of African development networks. We believe that the results of this research will serve as important ideas in the formulation of strategies and policies for enhancing sustainable growth and development in Africa in the next millennium.

As Africa enters the new millennium, we are very concerned about the serious level of poverty in our countries. The latest Economic Report on Africa for 1999, published by ECA, explores the development finance implications of achieving the goal of reducing poverty in half by the year 2015, as agreed to in Copenhagen at the 1995 World Summit for Social Development. Using the most recent data, the report shows that to reduce poverty by half by the year *2015,* the economies of Sub-Saharan Africa need to grow by at least 7 percent per year over the next 17 years. The development finance required to attain this growth target for the continent as a whole, is equivalent of 9 percent of GDP annually after taking into account the savings rate and expected ODA flows. This definitely represents huge challenges to African policy makers.

We believe that primary responsibility in meeting the growth and development objectives lies with the African people and their governments. The objectives cannot be realized, however, without the collaborative effort of our development partners. In addition to the requirements for development finance, another area that requires a collaborative effort is in formulating the growth and development strategies required. We believe that the EAGER project does help inform possible policy interventions and, so, we look forward to a more enhanced collaborative effort between the ECA and the EAGER project in future research activities.

Let me end these brief introductory remarks by quoting a passage from the Executive Secretary of ECA: "As we approach the new millennium, hopes are high that Africa can emerge from the stagnation and crises that have characterized much of its post-independence era. The emerging vision of a future Africa is of a continent that stands proudly alongside its global trading partners and sustains economic growth, a continent where access to health care is given, where education is universal, where economic stability is a human right, and where poverty in all its manifestations is sharply reduced within the coming three decades."

I believe that the issues threshed out in the EAGER papers, and those we will discuss over the next two days, will significantly contribute to the realization of the above vision.

Welcome Remarks by Edward J. Spriggs,
Regional Director, USAID Regional Center for Southern Africa

Good morning, ladies and gentlemen. Welcome to Gaborone.

We at the United States Agency for International Development, and particularly here at the Regional Center for Southern Africa, are proud, along with the ECA, to be a part of this All-Africa conference. We applaud your commitment to promoting high quality policy research and analysis and to strengthening capacity in the region to carry on such vital work.

At USAID's Regional Center located here in Gaborone, we are involved in several initiatives to promote policy research and analysis and to create various fora to promote dialogue between stakeholders on key regional issues -- including trade, finance and investment, transport and telecommunications, agriculture, trans-boundary natural resources management, and democracy and governance. It is particularly fitting that this All-Africa EAGER conference is taking place in Botswana. Botswana has long recognized the importance of high quality policy research and analysis and its contribution to good economic management and governance. This is evident in Botswana's economic growth performance and political stability over the last three decades.

We all are aware of the complex developmental challenges facing Sub-Saharan Africa, much of which will be discussed in great detail at this conference. Africa has experienced some difficult times in the past, but we believe that Africa has arrived at a tunning point. President Mbeki of South Africa and other leaders frequently speak of the African renaissance. It is our firm belief that a variety of initiatives, such as the EAGER Project, are making important contributions toward achievement of this renaissance.

An important challenge for these initiatives is how to harness the considerable analytical capacity that already exists in Africa. We at the Regional Center are developing, in concert with our African partners such as SADC, several capacity strengthening initiatives. For example, we are holding a meeting of senior policy makers in the southern African region in November to determine their top policy analysis needs related to regional economic integration. We will then facilitate interaction between top policy makers in the region and southern African policy researchers and analysts to work together, from a supply and demand perspective, to resolve key issues related to regional integration in southern Africa. We are prepared to devote significant resources to this effort, and to the capacity-strengthening of key southern African institutions, because we firmly believe that the destiny of Africa lies in its own hands.

I hope that all of us will take from this conference a renewed commitment to "push the envelope" in terms of the lessons learned over the past few years and the desire to continue to lobby for good economic management and governance throughout Africa. In particular, I would like to challenge each and every one of you to push for implementation of key policy reforms in your respective countries and subregion. Much has been done in the area of economic and social policy research and analysis in Sub-Saharan Africa. A fundamental issue is the extent to which these analyses have had an impact and resulted in meaningful change. This requires the involvement of policy researchers and analysts, policy makers, and civil society at large in a candid, straightforward discussion of the issues and development of concrete actions to assure successful implementation of policy changes.

In this vein, I would like to welcome you once again to Botswana and wish you great success at this conference and in your future endeavors to continue to push for broad-based, sustainable development in Africa.

Overview by the Chiefs of Party for the two EAGER Cooperative Agreements

Dr. Clive Gray, Chief of Party, EAGER Public Strategies for Growth with Equity, Harvard Institute for International Development (HIID)

Dr. Gray gave a brief description of the EAGER project and of the means by which HIID's EAGER/PSGE project had advanced collaborative research of practical and important development policies over the past four years. This process has been inclusive but focused and the results in terms of both increased capacity within the African research community and policy impacts have been good.

On Monday, EAGER research results were presented by researchers and discussed by the participants. This method of distributing EAGER research results has been going on for several years now through semiannual EAGER Workshops. Today, however, the venue is changed as we hope to leverage the progress that we have made in knowledge through past research by using it to illuminate the way forward for Africa. Hence the conference is titled, "Africa in the New Millennium".

Over the course of this conference, we hope to generate discussion in smaller breakout sessions through a set of proposed questions and following keynote presentations on key policy issues. The discussion of these breakout sessions will be reported to the plenary by the *rapporteurs* for each session. At the end of the conference, we will engage in two panel discussions of key policy issues and provide a chance for participants to put forward their thinking about these issues.

Dr. Dirck Stryker, Chief of Party, EAGER/Trade Regimes and Growth, Associates for International Resources and Development (AIRD)

Dr. Stryker commended the introductory speakers with particular regard to the message of Africa's need for success stories. He noted that while Africa's problems are what most often gets discussed, there are important lessons to be learned from African success stories such as Botswana. He provided details for the implementation of the Workshop Design and noted the importance of summarizing well the discussions in the breakout sessions for reporting to the whole group. Significant effort has been made to generate an inclusive and productive conference, but what is achieved will be up to the participants themselves.

III. Keynote Address: Public Policies for Accelerating and Sustaining Growth and Development

Mr. Harris Mule, TIMS Ltd, Kenya

Mr. Chairman, Fellow Participants, Ladies and Gentlemen.

I am honored by the invitation to address this distinguished assembly of scholars, researchers, and practitioners on the importance of public policies in accelerating and sustaining growth and development. Africa's economic history in the last twenty years has demonstrated the centrality of public policies in promoting or hindering growth. It is fitting that this conference is taking place in Botswana, a country that, over three decades, has consistently pursued sound public policies, and as a result, has achieved an exemplary record of sustained growth.

The story of Africa's under performance has been repeated in many forums often in the last twenty years. It is a story of poor governance, absence of civil liberties, internal conflicts and loss of lives, falling standard of living and increasing food insecurity, increased child mortality and declining life expectancy, and poor macroeconomic performance, including a rising debt burden. Nevertheless, significant advances have also been made both on the political and economic fronts. Dismantling of apartheid and the orderly transition from an oppressive regime to democracy in South Africa was a signal event. Although there have been lapses, many countries have moved from military dictatorships to civilian rule, recent events in Nigeria being a good example. Internal conflicts have been resolved in several countries, notably in Mozambique, and more recently in Liberia and Sierra Leone. Single party rule has been replaced with a multi-party system of governance thereby facilitating participatory democracy and extending the frontiers of civil liberties to an increasing number of Africans.

On the economic front, some advances have also been made. Real per capita GDP that declined in 1980s and first half of 1990s turned around in 1994, and increased by more than 1 per cent annually between 1995 and 1998. Overall fiscal balances have improved, with budget deficits as a percentage of GDP declining from 5.1 per cent in 1990-94 to 2.5 per cent in 1995-98. Average rates of inflation have also declined with a number of countries experiencing single digit inflation rates. There have also been improvements in external balances of the majority of African counties.

It is against this admittedly mixed background that the challenges, opportunities, and policy response facing Africa should be defined. And the challenges are many. Foremost among these is the viability of the nation state itself. The primary challenge of Africa at independence forty years ago was nation-building. This was achieved with varying degrees of success. But the economic decline of the last two decades has led to disaffection, ethnic particularism, and conflicts. In extreme cases, this has led to state failure, as in Somalia. The opening of the political system, a desirable outcome by any criteria, has posed major challenges to national cohesion as well. Political loyalties tend to be defined by ethnicity rather than class or economic interests. This can lead to national disintegration. Politically, Africa must put mechanisms in place that will define the parameters of political competition, and prevent and resolve conflicts.

On the economic front, Africa must refashion its institutions and put in place policies that will foster growth with equity. Output and factor productivity must be increased. Social welfare must be improved. Poverty must be reduced. Africa must position itself to compete in the global economy. To do all these, Africa must institute systems of economic governance that foster transparency and accountability and thereby improve economic efficiency.

To achieve the above goals, Africa should take advantage of the opportunities open to it. Africa has natural resources that can form a basis for resumption of growth. It has a youthful and increasingly literate population. The end of the Cold War has opened opportunities for Africa to focus on development without the distraction of geopolitical competition. Appropriate policies are a central element in the strategy.

The experience of the last twenty years tells us that policies matter. The policies pursued up to mid 1980s that overextended government intervention in production, trade, prices, and resource allocation clearly did not work. The reforms undertaken since then have led to improvements, although modest, in economic performance.

However, the modest response to policy reforms show that public policy, though necessary, is by no means sufficient condition to foster rapid and sustained growth. Other factors must be taken into account. Among these are the adequacy, relevance, and comprehensiveness of the policy package; the global context, the domestic context, and the role of leadership.

The experience of the last 15 years shows that the presumption that unregulated markets and, the corollary, minimalist states, are not options for sustainable growth in Africa. The markets, though important for ensuring economic efficiency, must be regulated to forestall market failures. Experience elsewhere, notably in South-East Asia, has demonstrated that carefully thought out and targeted state intervention can have major positive impacts. The state is better positioned to provide services that have major externalities. It is now recognized that the state is central to growth and development, and the debate has shifted from the <u>role</u> of the state to the <u>efficiency</u> of the state.

The policy package must also be comprehensive. It must address the problem at hand, taking into account the political and social environment, the macroeconomic context, the structure of the economy, and the microeconomic setting. Initially, the policy reform efforts focused primarily on macroeconomic issues. Overtime, the inadequacy of this approach has been recognized, and the reform package has been expanded to cover not only macroeconomic issues, but also other economic issues. Governance, and to a lesser extent institutional issues are increasingly important elements in any policy package for fostering growth and development.

An important element in the policy package that is often ignored in policy design is institutions. This is primarily because institutions are not easy to define, to quantify, and to factor in policy design. Institutions may be defined as prescriptive patterns of correlated behavior. They are stable. They are both formal and informal. The formal institutions are formalized into organizations with legislation, rules, and regulations to govern their operations. Informal institutions include the societal norms and values governing individual behavior. Formal and informal institutions are closely linked. Where formal institutions and the organizations supporting them are in harmony with informal institutions, policy acceptance and therefore implementation is assured. Where there is disconnect between the two, policy is resisted.

This disjuncture is at the heart of many public policy failures. Many public policies, be they economic or social, do not address adequately the institutional environment. In many cases, they assume away the institutions. Even when they explicitly address institutional issues, like legislation, law reform, or civil service reform, they assume away the social norms and individual values.

To address adequately the question of institutions as a parameter in public policy formulation, at least three things must be done. First, public policy formulation must be nationally owned. Secondly, it must be participatory. Thirdly, policy researchers and analysts must incorporate institutional parameters in their design. They must avoid the all too frequent disconnect between formal policy analysis and the deeply held values and norms of a society. As such, research teams on public policy should be multi disciplinary.

In addition to domestic factors, sound public policy must take into account the international setting. For Africa, two issues are relevant. First is the issue of official development assistance. Africa is highly aid-dependant. A high proportion of government budgets and national import requirements of African countries are financed by aid. Nevertheless, aid levels are falling. Furthermore, aid relationships are changing. Aid will increasingly depend on good performance of the recipient country. It will depend on the willingness and capacity of a country to institute and implement sound policies and to attain development goals acceptable to the donor. Inevitably, not all countries can meet these requirements, and those that do not will be allowed to fail.

Second, and more important, is the issue of globalization. The term itself is very imprecise. It means different things to different people. At the core, globalization means trade openness and removal of trade barriers, integration of capital markets and openness to investments, and mobility of technology. This in turn means foreign ownership of national assets, transfer of power from the state to transnational corporations, and integration of cultures.

Viewed as a process of international economic interaction through trade and investments, globalization is not a new phenomenon. There was more trade and movement of capital between nations as a percentage of GDP during the last quarter of the 19th century than today. The new globalization situation is the advance in communication technology and international rules and regulations governing communal relations among nations, notably through the World Trade Organization.

Under certain conditions, globalization, through trade and investments, can lead to rapid economic growth. This was the case with South East Asia. Nevertheless, other regions of the world, notably Latin America also experienced rapid growth between 1960 and 1980s under impact substitution policies.

Generally, globalization leads to increased inequality between and within countries as was shown in the UNCTADs 1997 Trade and Development Report. It unleashes centrifugal forces of international economic integration on the one hand and localization on the other. As a rule, globalization is beneficial to the strong and negative to the weak. Those with the resources, technology, information, skills, and capacity to adopt can benefit economically from globalization. The weak and unskilled are likely to be affected negatively.

Nevertheless, whether the impact of globalization is positive or negative, the phenomenon cannot be ignored. It must be factored in policy formulation to take advantage of its positive attributes and reduce the negative consequences. This will include careful research on trade policy to determine how fast and in what manner to liberalize trade, under what circumstances, and when to liberalize the capital account, how to manage foreign direct investments, including portfolio investments, how to manage government budgets in the face of declining revenue from import taxes, how to manage external shocks, how to nurture national cohesion in the face of globalization and localization, and how to protect the poor.

Therefore, besides domestic economic and political factors, sound public policies call review and analysis of the external environment. The analysis should be comprehensive. Above all, sound public policy has to have the possibility of being implemented. This will be accomplished by factoring the institutional constraints into policy analysis. The institutions will determine the policy absorptive capacity and determine the scope and pace of policy changes.

To design and make policies that will foster sustained growth calls for leadership. It is only through effective, efficient, and responsive leadership that African countries will meet the challenges of national cohesion, social transformation, and sustainable growth with equity. The leadership has to be broadly based and include political leadership, business leadership, leadership in civil society, and leadership in professions, including academics and researchers.

Of the four types of leadership, political leadership and leadership in the realm of ideas and research are particularly important. For sound public policy making, Africa will need leadership that has competence to comprehend the threats, challenges and opportunities of globalization, the imperatives of good governance, the vision of a preferred future, and the capacity and commitment to realize it. It should be a leadership attuned to aspirations of its citizens and capacity to assess different options open to it to attain those aspirations.

Africa has had its share of poor leaders. It also has had outstanding political leaders. Moreover, there is now a new generation of young Africans, many of whom are competent and committed, with great potential for leadership. With the opening of the political system, it should be expected that many potential leaders will become leaders in the coming years.

In the realm of intellectual leadership, the rapid advances in education at all levels that Africa achieved in the 1960s and 70s has experienced reversals. This is particularly acute at the university level where there is evidence of decline in the quality of education. The problem is exacerbated by the brain drain of highly trained Africans. These trends must be reversed if Africa is to retain and expand its capacity in analysis and formulation of sound public policies.

On a positive note, there has been a resurgence of research activities on public policy during the last ten years. The African Capacity Building Foundation is supporting more than twenty policy analysis institutes both within and outside governments. Some initiatives like the African Economic Research Consortium, have made major strides in strengthening capacity in economic research and policy analysis.

The challenge to sound public policy making in Africa is enormous. Under the best of circumstance, public policy making is an exacting art requiring combination of skills in goal setting, policy analysis, and making decision from several options under pressure from competing interests. Policy making in Africa is more difficult because the choices are harder, resources are scarce, and skills on policy analysis are limited. Nevertheless, hard choices have been made in the past, and capacity on policy analysis is gradually being built up.

IV. Tuesday 11:00 to 13:00 – Breakout (Parallel) Sessions

Session # 1 Implementing Post reform Growth Policy: The Role of Leadership

Chair: **Emmanuel Kasonde, Zambia Revenue Authority**
Rapporteur: **Max Thondolo, Chancellor College, Malawi**
Resources: **Clive Gray and Malcolm McPherson, HIID**

The chairperson proposed a context for the discussion by presenting the relationship between economic success (measured by growth rates) and governing institutions. He stated that leaders in both the public and private sectors should be qualified to oversee the development and maintenance of institutions that can govern the economic arena for the benefit of greater economic growth.

The problem is that the path to political power in Africa does not necessarily filter for these qualifications. To the extent that political power often rises through support of a political party, some way needs to be found to involve technically competent people in this process. Either directly, by having technocrats insinuate themselves into positions of political power, or by helping to define the party platform (manifesto). Through involvement with the creation of the party platform, technocrats can help to ensure that the objectives of institutions are reasonable and that there is a feasible path for achieving them.

From the government to the party to the individual is a tortuous path for accountability to follow, but accountability for choices about governing institutions is what is needed to ensure that effective institutions with reasonable mandates are our result.

Response from the Floor

In Africa, no formula for predicting how a leader will rise to the top exists. Perhaps, the evidence for going with technically trained people has not been particularly encouraging for Africa. Our passing generations of leaders were often among the most highly educated of their nations, but their performance as managers of economic growth has been disappointing. What is needed in Africa is benevolence in its leaders, no matter how they come to their position of political power. As for the educational qualifications, these do not matter in the leader if (s)he has access to good technical advisors.

- Economists are not sufficiently equipped to advise on the process of selecting effective growth oriented leaders. Complementing economic criteria with the wisdom of political science and other disciplines would offer relevant guidance for choosing effective leadership.

The aspirations of the people have to make their way into the national manifesto. What the people want is really the cornerstone for growth in an economy. The problem is harmonizing the actual aspirations of the people with the party platforms and with the objectives of leaders.

- Upgrading the educational status of the citizenry is vital to ensuring that competent leaders are selected.

The caliber of leaders is a reflection of the caliber of the society ruled by the leaders. Weak institutions will breed weak leadership. This calls for the need to strengthen institutions and civil society for Africa to begin electing effective leaders. The way to strengthen institutions is to ensure that the citizenry is accorded educational opportunities. That way there will be no room for so called charismatic leaders since the leader will truly be ‘first among equals.’

- The assertion that leaders need to be charismatic in order for them to carry through meaningful economic growth and development policies does not seem valid in modern times. It is by building strong institutions and civil society that effective leadership will emerge.

Finally, the importance of winnowing development advice from abroad was addressed.

- Africa's destiny lies in the hand of Africans themselves. This calls for selective acquisition of advice from 'well wishers' to avoid being misled accidentally or intentionally.

Session # 2 Developing African Financial Markets

Chair: Jimnah Mbaru, Dyer & Blair Ltd, Kenya
Rapporteur: Malcolm McPherson, HIID, USA
Resource: Judith Aidoo, Consultant/USA

Presentation by Judith Aidoo

The basic purpose of fostering African capital markets and financial markets in general is to mobilize capital for the African economic development. A great deal of attention has been devoted to the issue over many years, but results to date are far from satisfactory. African capital markets remain small, lack liquidity and are costly. They have cumbersome legal requirements, and even operational problems in settling trades. Fundamentally, they generate little new investment capital, particularly for indigenous businesses. Yet Africa needs huge amounts of investment, including an estimated $50 billion in the telecommunications sector alone. Thus, the development of effective financial markets is a critical factor for achieving rapid and equitable growth.

Following the old axiom, "You reap what you have sown," the disappointing "harvest" in African financial markets suggests that the "seeds" have not been correctly selected or properly sown. What can be done differently? One possibility is to develop larger, deeper, and more liquid markets by creating regional markets and regional investment funds. In addition, much more effort has to go into developing long-term financial institutions other than stock markets, especially insurance markets, pension funds, and bond funds. These approaches cannot succeed, however, without a stable macroeconomic environment, lower interest rates, and further reforms to support the growth of the private sector.

Data compiled by the International Finance Corporation on emerging stock markets around the world shows that African markets have generated high rates of return over the past five years, on average, though individual markets have been highly volatile. Still, returns in the African stock markets (excluding South Africa) have a negative covariance with returns in most other markets, suggesting that investment in Africa can actually *reduce* overall riskiness for a diversified portfolio of equity investments. Furthermore, African markets are not significantly less liquid than many other emerging markets, and shares in Africa are very cheap, as indicated by the fact that the price-earnings ratio is around eight, compared to 20-30 in the United States. African stock markets thus offer an attractive combination of attributes, but most international investors continue to overlook the region.

Discussion

1. The initial discussion centered on the development of capital markets. The main points made by participants include:

- To attract capital inflows and mobilize investment, sound economic fundamentals and good prospects for economic growth are imperative. Capital flows do not respond to *needs,* but to opportunities for profit, relative to risk. Public policies have important bearing on both the risks and returns, for better or for worse. To make progress in developing financial markets underlying factors must be assessed.

- Besides size and liquidity, risk is an equally fundamental determinant of the direction of financial flows, and African markets are viewed as highly risky.

- A special program to stimulate ownership of stocks among blacks in South Africa ran into serious problems in the face of a market decline. New thinking is needed to devise other mechanisms for promoting indigenous participation in stock markets in Africa.

- The stock exchange in Botswana operates very efficiently, with one full time employee in a single small room. In addition, the government encouraged companies to float shares by offering a tax break that is due to expire after five years.

- A question was raised about the benefits of attracting foreign investment, because such funds can be highly volatile, adding to risk in the market. Ms. Aidoo responded by repeating the fact that local savings cannot possibly provide enough funds to satisfy the development requirements of most African economies.

- Development of local capital markets is equally important to stem and even reverse capital flight, as occurred in Latin America.

- Stock markets are important, but even more important in the short to medium run are insurance markets, pension funds, and the banking system.

- The main source of long-term financing throughout the world is from reinvested earnings. Thus, creating economic conditions that support higher earnings is the most effective way to generate investment capital, especially for small and medium enterprises that are not well served by the formal financial markets.

2. The group also devoted quite a bit of time to discussing the question of how to deal with insolvent banks. According to the Chair, this is the most pressing financial market problem facing most countries in Africa. The discussion revealed major differences of opinion, highlighting the fact that solutions will vary according to circumstances. The bleeding cannot be allowed to continue. Alternative approaches include restructuring the banks, facilitating bank mergers, and closing banks. All participants agreed, however, that decisive action is needed to deal with problem banks, and that effective banking

supervision is an essential element of the policy framework for developing financial markets. Other main points included:

- Closing large banks can undermine confidence in the banking system, creating a domino effect that will hit indigenously owned banks especially hard.

- To the extent that banking failures have been caused by government policy, it is unfair for the government to solve the problem by closing the banks.

- But letting large banks continue to operate can simply cause bigger problems later, as occurred in Asia and even the United States.

- Financial intermediation in Africa is very weak. A very large fraction of savings does not pass through the financial system, meaning that the allocation of investment funds is very inefficient.

- In much of Africa, the culture norms related to borrowing from banks are part of the problem.

- African countries should seriously consider establishing deposit insurance schemes so that the cost of future bank failures is borne by the banks, not by the taxpayers.

3. Other important points raised in the session included:

- The issuance of government securities to finance budget deficits crowds out private borrowing, undermining the fundamental purpose of financial markets.

- In discussing financial market policies, one must keep in mind that the purpose of development is to benefit most of the people. This means that financial market policies cannot be judged as successful unless they promote local businesses, mobilize local savings, employ local people, and generate broad-based economic growth.

- Central bank independence is not achieved by legislation alone. A serious commitment is also needed by national leaders to keep politics out of monetary policy management.

- The sequencing of financial liberalization is more a matter of sensible timing and good judgement. There is no clear formula for "optimal" sequencing.

- Globalization of financial markets does introduce new risks to the system, and new constraints to domestic policy. At the same time, they provide tremendous opportunities for attracting capital required for development. In any case, the constraints on domestic policy arising from financial flows are valuable as far as they compel leaders to pursue sound policies.

Conclusion

At the end of the day, the job of financial markets is to mobilize resources for investment. This cannot be achieved without responsible macroeconomic policies and strong economic fundamentals, and also an efficient, effective and accountable regulatory framework.

Session # 3 Public Sector Saving and Debt Reduction

Chair: Joseph Kinyua, Central Bank of Kenya, Kenya
Rapporteur: Jonathan Haughton, Suffolk University and HIID
Resource: James Duesenberry, HIID, USA

Seven themes emerged from the discussion of public sector finance. The essence of the discussion is gathered under these headings.

1. *The rule of thumb is "balance the budget unless there is an exceptional justification."*

James Duesenberry (HIID, USA) noted that in recent years there has been a return to the presumption that budgets should be balanced - a view that was almost universal before the 1930s. A measure of flexibility is still called for, which suggests the following rule of thumb:

> "Governments' revenues should cover recurrent expenditures and, unless there is a particularly strong case for making an exception, capital expenditures too."

Guindo Nafissatou Konare (Trade Directorate, Mali) argued that many African countries take the US as a model, and convincing them to follow this "orthodox model" is difficult when the US runs budget deficits. In response it was noted that the US, dissatisfied with running budget deficits for many years, is now running a small surplus.

The legacy of past deficits is accumulated debt, which has to be serviced. According to Joseph Kinyua (Central Bank, Kenya), this severely restricts the choices open to governments. In Kenya, a quarter of government revenue goes to pay interest on the debt. This squeezes other expenditures, makes it hard to pay down the debt, and in the words of Njuguna Ndung'u (University of Nairobi, Kenya), "condemns one to be unable to change the deficit." According to his research, the need to service short-term borrowing can strain budgets - to the point where in some countries the short-term domestic debt cannot be sustained (Zimbabwe, Malawi, Zambia). Hamisi Mwinyimvua (University of Dar es Salaam, Tanzania) emphasized a similar point, noting that despite low revenue collections, Tanzania has in recent years had a primary surplus, which it has used to clear some outstanding debt. This in turn has led to the under funding of recurrent spending, and an almost total dependence on foreign grants and loans for development spending.

2. *A balanced budget, on a cash basis, can be deceptive*

The IMF typically targets the primary budget balance as one performance measure. Sam Ashong (CEPA, Ghana) reported that in Ghana the budgetary targets have been achieved, on a cash basis, and this is apparently satisfactory to the IMF, which was obliged to work with the available official statistics. Nevertheless, the balance has only been achieved by allowing domestic arrears to accumulate. With less government borrowing, the T-bill rate has fallen. Meanwhile, unpaid domestic firms have had to turn to the banking system for additional working capital.

The problem here is an accounting one. Joseph Kinyua pointed out that on a commitment basis, Ghana has failed to achieve budget balance. The point here is for the purposes of fiscal discipline. It is not sufficient to look just at the cash flows.

3. *The IMF time horizon for structural adjustment is too short, too narrow*

Even when the IMF targets make sense, a problem with the required speed of adjustment exists. The IMF appears to have a three-year time horizon in mind when for many economic activities (e.g., getting foreign investment inflows) waiting a decade may be necessary. Countries themselves also need to persist. Perhaps, it was suggested, this is easier for those countries that have gained economic wisdom based on "experience derived from bad judgement!"

Sam Ashong expressed his concern that the IMF tends to gear programs toward achieving financial health, not explicitly to tackle growth and poverty. In the same vein, Njuguna Ndung'u argued that the World Bank program in Kenya had the effect of raising poverty. While no real alternative to structural adjustment policies may exist, complementary policies are called for that target poverty. In Kenya, poverty is strongly correlated with a lack of assets, and this calls for a concerted effort to equip the poor with land, training, or other assets; one could start by targeting these interventions to those districts where poverty was most serious.

A similar point was made by Guindo Nafissatou Konare. Despite achieving macroeconomic balance in Mali - no domestic debt, a primary budget surplus, borrowing only for large projects - "households do not feel it." Something more is needed beyond adjustment.

4. *The social costs of adjustment may be overstated*

Major concerns that governments have when moving toward fiscal health is that social costs are incurred during structural adjustment. Jeff Metzel (AIRD, USA) referred to a study that found that the social costs of adjustment were not as large as had been feared. Although some public servants were affected, the poorest part of the population often does not receive many government benefits anyway, and so stands to lose little. Joseph Kinyua concurred, arguing that politicians opposed to change often find it convenient to exaggerate the social costs involved.

5. *Taxpayers are more willing to pay if they see some benefits*

Taxpayers are more willing to pay taxes when they also benefit tangibly from government services. Jeff Metzel noted that the government, which used to tax vanilla exports at a 30% rate, reduced the rate to 10% some years ago and has now eliminated it entirely. Vanilla producers have reinstituted a voluntary tax on themselves in order to finance local infrastructure - a tax they would be unwilling to pay to the central government because none of the proceeds would be spent locally. A parallel in the US is with "business improvement districts" that self-tax to keep their localities clean and safe.

The implication is that a more decentralized system for collecting and spending taxes, strengthening the link between taxes paid and services received, might boost revenue mobilization. Nehemiah Osoro (University of Dar es Salaam, Tanzania) added that introduction of a revenue authority, such as done in Kenya, Tanzania and elsewhere, also appears to help with revenue mobilization.

Jonathan Haughton (Suffolk University and HIID, USA) suggested that it is hard to generalize about the appropriate level of tax revenue, but argued that greater mobilization is called for in countries such as Madagascar, Tanzania, Uganda and the Democratic Republic of the Congo, where the ratio of revenue to GDP is less than 12%. On the other hand, Kenya's revenues, at 27-28% of GDP, impose a tax burden that may be harming growth.

6. *More attention needs to focus on how investment money is spent.*

According to Nehemiah Osoro, it costs about $190,000 per km to pave a road in Botswana. Comparable prices in Kenya and Tanzania are two to three times as high, and the quality seems poorer. The moral is simple. It is important to watch more closely how government funds, particularly investment funds, are spent.

7. *Privatization affects public saving very little, especially initially.*

Experience to date shows that privatization brings little relief to the budget, and may sometimes be expensive to undertake. Madame Konare said that in Mali the companies privatized so far were not worth much, and so brought in little revenue; on the other hand, workers have sought (and won) damages, which have proven costly to the state. The government is moving slowly on privatizing the firms that "work well" including a major cotton factory, the main tobacco firm, and banks (although tenders have been put out in this last case). For a variety of reasons the financial position of privatized firms in Mali has not improved very much since they were privatized.

In Swaziland, according to Noreen Maphalala (Ministry of Finance, Swaziland), privatization is being restricted to firms that can survive; many small parastatals "cannot be profitable."

The privatization of Kenya Airlines is seen as a success. The government assumed the company's debt; it then used the proceeds of the sale to cover this debt. The payoff is coming now, as the subsidies to the company have ceased, and it is paying taxes.

Ghana has raised fairly substantial sums from privatization, but has mixed the proceeds in with regular revenue. Sam Ashong argued that this is dangerous, because the inflow is not steady. It might be better to use the proceeds for development, particularly social investment - in effect to substitute one set of government assets for another.

The government of Tanzania is half way through its privatization process, according to Hamisi Mwinyimvua. Some privatized parastatals (e.g., Tanzania breweries, a cigarette company) are doing well. In the short run the government still has to pay off the accumulated debts of the (ex)-parastatals, but once this is done the budgetary gains will become more important.

Sam Ashong offered a reminder that privatization needs to go hand in hand with the promotion of competition, for otherwise one would be substituting one form of monopoly for another. State-owned enterprises may often be justified on social grounds - such as creating jobs - but these rarely hold up to scrutiny.

What role should government play in providing infrastructure? Jonathan Haughton found it hard to justify a government role in electric power. Madame Konare argued that it would be unthinkable for anyone but the government to provide the roads and railroads in Mali. It is seen as a duty of government. On the other hand Jeff Metzel noted that Mali is moving toward the private provision of irrigation, strictly an area of state provision in the past.

Session # 4 Reducing Poverty by Expanding Employment

Chair: **Bax Nomvete, AIPA, South Africa**
Rapporteur: **Servacius Likwelile, REPOA, Tanzania**
Resources: **Dirck Stryker, AIRD/USA**
George Gyan-Baffour, Howard University/USA

General Discussion

Poverty is a pervasive problem, affecting the whole of Africa. A disproportionate number of the poor are women and the youth. It was observed that the problem of poverty was known; what is missing is feasible solutions for implementation. The discussion was thus geared towards providing practical suggestions.

The strategy to get the poor out of poverty should address issues of critical importance to the poor. A comprehensive approach needs to be taken, needing a sound macroeconomic environment, linking macro and micro levels. Focus should be on wealth creation. These are issues like employment, (especially self-employment), the informal sector, human capital development addressing education (entrepreneurial skills), health, land, and capital.

***Issues identified*:**

Four issues are considered critical in addressing poverty reduction that need to be addressed by all countries, taking cognizance of the fact that certain policy options are country specific. The issues are:

Capacity building

The stress here was on the need to have a guided and focused skills development program involving both the public and private sectors in areas of human capital and workforce development.

State intervention

This should be in the areas of infrastructure development and in ensuring that there is a sound, enabling macroeconomic environment as this has a bearing on success. Policy biases affecting agriculture and the informal sector should be re-examined.

Accessibility

Accessibility to assets and stimulation of domestic savings is needed to promote domestic entrepreneurs. Once domestic investors are nurtured and flourish FDI can then be easily attracted.

Direct transfers

Provision of safety nets is required for the poor to protect those not easily taken out of poverty in the short-term.

Session # 5 Economic Impact of HIV/AIDS

Chair: Diery Seck, IDRC, Senegal

Rapporteur: Aidan Eyakuze, Mwaniki Associates, Kenya
Resource: Cheikh Niang, Universite Cheikh Anta Diop, Senegal)

Opening Remarks by Chairperson

HIV/AIDS has caused tremendous loss in human capital, terrible social impact on orphans and the elderly, overwhelmed medical facilities, resulted in significant reallocation of social spending, and has had a negative impact on human development indicators (HDI) through a reduction in life expectancy. It is fitting to discuss the issue in the Southern Africa region where there is a very high prevalence of the disease.

Economic impact questions could include:

1. What are direct and indirect costs of HIV/AIDS?
2. What is the impact at the firm, sectoral and macroeconomic levels?
3. How has it changed the growth path and development strategies of affected countries?
4. What strategies will alleviate the adverse impact of HIV/AIDS in Africa?

Reflections by Cheikh Niang

One could reflect on that number of interesting and challenging questions. These include the effects of the HIV/AIDS at the individual level, where motivation and productivity are negatively affected when one knows that their life-span has been seriously curtailed. As individual priorities and choices are realigned, so are those of the organizations and institutions for which the affected people work. HIV/AIDS causes organizations to lose people in whom much might have been invested in training. Institutional memory is also lost and not replaced. Further issues revolve around the impact on the families of HIV/AIDS patients since resources spent in looking after the sick, funeral costs and the care of dependents after the patients' death are significant. The disease also can negatively affect relationships between communities and it is not clear how we should respond to this.

Questions and Discussion (Round One)

<u>Question</u>: Can we have one or two examples of success in dealing with the HIV/AIDS disease? What accounted for this success?

<u>Comment</u>: Discussing economic growth without discussing HIV/AIDS is impossible. UNAIDS estimated that 34 million people are living with HIV/AIDS globally, of which 23 million are in Sub Saharan Africa. Southern Africa bears this with the highest prevalence in the world (20-40% of the population in urban areas). There are 16,000 new infections every day (of which 50% occur in young people aged less than 25 years). In 1998, 2 million died of HIV/AIDS and 200,000 from wars and civil strife. HIV/AIDS is the number one adult killer in Africa. Elements of a solution must start with heightened political will and leadership to fight the disease. This should be

translated into real economic resources. A multi sectoral response and investment from sectors other than health (e.g., education) are needed. The stigma associated with the disease must be reduced and access to basic medicines for treating opportunistic diseases and to voluntary counseling and testing must be vastly improved. The impact at the enterprise level is huge. A study in Zambia has seen tremendous increases in the costs of supplying medical benefits and time lost from compassionate leave days for attending funerals all of which are affecting productivity.

Comment: There may be a missing dimension in our understanding. We do not have information on the history of pandemics. We need to use history to gain some perspective on what happens to people's perceptions of government during and after serious pandemics. The notion of federalism reemerged after the Black Death, many centuries after Aristotle. The idea has obviously had a tremendous influence on the rest of the world. A historical perspective can give an idea of how societies will change after such a disease.

Comment: Attention was drawn to a Boston Globe series examining the apparent denial of the seriousness of the disease in Africa. During the 1992 drought, Southern African leaders approached donors asking for aid but no such concerted initiative was mounted to deal with for the AIDS crisis. It is also possible that our tools of analysis and coping mechanisms are not appropriate for the task; economists worry about economic costs; educators worry about how to train people who perhaps will not live very long; managers worry about how to motivate employees and induce them not to trash the institutions. Many issues have not been addressed systematically. Focusing only on economic impact does not get at the real issues. A broader academic approach is needed.

Comment: It is interesting to note how few people came to this discussion. We should talk to our colleagues about what needs to be done to deal with the HIV/AIDS crisis. The full impact of this pandemic is not yet well understood, although efforts are being made to increase our understanding. HIID is looking at its impact on South African manufacturing and developing techniques of looking at what will happen when morbidity and mortality rates increase and large proportions of people disappear.

However, there is almost no discussion of the impact of HIV/AIDS in Africa's agricultural sector. What is the impact on extension services (not just labor, but skills?). Changes in cropping patterns due to a reduction in the rural labor force, and producers shift to low labor-intensive crops such as cassava from more labor intensive ones such as maize are possible. This could have major implications for the continent's trade, given Africa's dependence on agricultural exports. There are also serious implications for the transfer of knowledge from generation to generation, as communities lose the repositories of this knowledge before they can pass it onto their children. In the informal sector, food marketing by small-scale traders is being decimated. In the rural families, with the increase in the number of orphans, elderly people are being swamped with dependent children. More pressure will be put on family system as firms reduce costs and shift them to the public sector. We have not thought through the implications of these effects.

Key issues that emerged from the first round of discussions were summarized into the following major themes:

1. What might be the sources and applications of resources (human, financial, technical, etc.) to be used on the fight against AIDS?
2. How can organizations and communities be helped to cope with the HIV/AIDS pandemic?
3. What are some success stories in dealing with the crisis, and is there any new research to be examined?

Discussion of Key Issues:

1. <u>Resources: Sources and Applications</u>

- A recent meeting in Washington, D.C. invited firms with operations in Africa to discuss the impact of HIV/AIDS on their operations. Coca-Cola indicated no disruptions in productivity and sales were up in Africa. The company dealt with it as a personal matter and seemed to have no official policy on the subject. Chevron (Mali) showed significant interest and willingness to commit resources to community-based projects dealing with AIDS and wanted to know what public funds would match their contributions. Smith Kline Beecham expressed similar interest.

- It was noted that a tremendous silence on issue of AIDS in South Africa exists. How can MNCs operating in Southern Africa, and also domestic firms, be involved in the discussion and action?

- A suggestion was made that commitment to fight the disease should be spearheaded by the public sector and resources should come from the private sector. Focus activities on education and raising awareness on why we need to fight. Private firms need to be shown that if they spend money on fighting the disease in their workplaces, it will have a positive impact on their bottom line. A private sector initiative, comprising 10 corporate members led by Barclays Bank, has been established following the recent Lusaka Conference on HIV/AIDS in Africa. It will gain momentum, but the initiative must be started at all levels.

- The absence of Heads of State at the Lusaka meeting does not necessarily display a lack of commitment to fight the disease. Heads of State discuss it every time at their meetings including the impact on their own Cabinets.

- Technical Assistance (TA) may need to be rethought. What is perhaps needed is the type of TA that will provide stability to organizations reeling from loss of personnel to HIV/AIDS. Debt relief for HIV/AIDS will not free up additional resources through savings since the net flow of resources to Africa is positive.

- The issue of debt relief sparked different views. Zambia has debt stock of US$ 7 billion. It will spend US$ 120 million on debt servicing, at expense of investment on the social sector in 1999. Officials are trying to convince creditors to forgive this debt and use the funds to combat the disease. The basis of economic progress is destroyed if HIV/AIDS is not dealt with. Sub Saharan Africa spent US$ 140 million in 1998 on anti-AIDS programs, a ludicrous amount compared with US$ 2.8 billion spent on the Kosovo air campaign in one month in 1999! Transparency and accountability for the resources that Africa receives are needed.

2. Coping with the economic impact of HIV/AIDS

- Firms need to be informed of the likely direct and indirect impact of HIV/AIDS. Some in South Africa have started HIV/AIDS programs but could use support through resource centers to explain what works. They need to take a pro-active, holistic approach to curb the pandemic before it becomes a serious problem for them. Different coping strategies may be required for firms with differing proportions of skilled and unskilled workers.

- AIDS Education: Research shows that the subject is never discussed in the education system. Management education needs to move away from the US/European model where the problem will not exist in the magnitudes now facing African countries. The University of Natal has an AIDS Awareness course, but it seems to be alone in Southern Africa.

- People are aware of the disease but their behavior does not change. People behave according to their values and culture, and social awareness does not always change this behavior. Following traditions is more important for many people than to risk being excluded from society. The challenge of fighting the disease is not only economic or financial. Cultural and social dimensions must be integrated in implementing relevant programs. Psychological factors have a big impact at the social level and there is tremendous potential for the mobilization of communities. Channels need not necessarily be official and the credibility or social acceptability of the source of information is critical to the effectiveness of the messages. What is the role of the church?

- When large numbers of people die, the ratio of land to labor changes significantly. Is it possible to develop production technology that is less labor-intensive, in order at least to maintain the current level of aggregate agricultural production?

- Individuals must believe in themselves and that they can make a change. Unless we as humans care for one another and the way we look at the persons who have the disease, we cannot fight it. Thus, the first attitude change must happen inside us.

- Why are there no anti-AIDS adverts on the more than 400,000 taxis in South Africa? Perhaps contraceptives could be sold on them? The combat against the disease needs to incorporate similar kinds of radical moves.

3. <u>Success Stories and Key Research Questions:</u>

- Senegal: prevalence is small (2-3%) since the beginning of the pandemic and the number of new cases is limited. This has been attributed to the early mobilization of awareness by the political class and religious leaders who displayed a quick willingness to deal with the problem.

- Zambia witnessed a decline in HIV prevalence in the 15-19 age group, from 27% to 13% between 1991 and 1998. Prevention does work. In Gambia major awareness programs were launched in 1985. As in Senegal, prevalence rates have remained low. Early saturation of anti-AIDS messages was the key to the success.

- A combination of interventions is needed - counseling, condom social marketing, STD control, public involvement of politicians and religious leaders. It is a matter of priorities. Firms could be induced by good business citizen certificates or tax breaks on their anti-AIDS spending. Success depends on a combination of approaches – which is holistic. We should move away from atomizing the individual and look for example at their spiritual make-up. Senegal's mobilization of religious chiefs in the anti-AIDS campaign is part of its success story.

- What works in the fight against HIV/AIDS? Lots of work has been done but no clear idea of what works best has emerged. There is a paucity of information, data and research on where we can best invest money on fighting HIV/AIDS. Do we know the most cost-effective ways of dealing with the problem? Is it sale of condoms? Is it awareness campaigns? Nevertheless, professionals are succumbing to HIV/AIDS despite the wealth of information. Researchers need to do more work on this issue.

- Rather than spend any more time on research of what works, it was proposed that the funds/resources be handed over to the community and let them figure out what works. However, the 'community' is a vague idea (leaders? vulnerable groups? informal networks?). The community should be more than a slogan. Research must be done to define, substantiate and operationalize the community.

V. Plenary Session: Modalities for Expanding the Private Sector

Keynote Speaker: Mr. Kwasi Abeasi, Private Enterprise Foundation, Ghana

Mr. Chairman, Distinguished Invited Guests, Ladies and Gentlemen:

As most of you are aware, after independence, most African countries adopted a public sector -- led development strategy to advance the economic and social conditions of their people. By that approach, governments neglected the potential of the private sector as an effective agent of economic and social change. Of course at the time it was perhaps understandable, given the limited human resources at their disposal and the legitimate demands of our people for rapid and measurable change in their livelihoods.

If we take as an example the Ghana experience, we note that for about a decade after independence Ghana enjoyed a high standard of living compared to most other West African countries. This was supported by a well developed manufacturing industry and a strong export base made up largely of gold, timber and cocoa. The economic strategy of the first governments of Ghana was to industrialize rapidly through the establishment of a large number of state-owned enterprises which were to produce basically for the local market. The concept behind this was import substitution.

These state-owned enterprises were highly protected by high tariff barriers and import licensing restrictions. The economy was virtually controlled by the government. There was a wide range of restrictions not only on trade but also on foreign exchange flows. In addition, the prices of a wide range of goods and services were strictly controlled. All of this was going on because the governments were under the impression that the private sector did not have either the finance or the managerial skills to support the kind of industrialization envisaged.

The private sector was accorded very little attention, despite the fact that it was producing virtually all the cocoa at the time. The government continued to look upon the private sector more as a parasite than a partner. Because private sector operators tended to draw attention to the shortcomings of the government's development strategy and the results of that strategy, government tended to view the sector as an agent of opposition. This sort of scenario was not peculiar to Ghana but was repeated in a number of African countries.

Forty years or more later, it has become obvious that for accelerated and sustainable development or growth, the private sector has to play a lead role. The new paradigm of development demands a dynamic partnership between government and the private sector. Private capital is an indispensable ingredient in the development equation, not only as a means of accelerating growth but as a sustainable and efficient source of investment. Public-sector led development strategies have not worked anywhere. A private sector led strategy has a better chance of producing rapid and sustainable development. This is what has led to the recognition of the private sector as an engine of growth.

In Africa, the public sector covers a wide range of activities and continues to expand in different directions as new regulatory set-ups are put in place to monitor the private sector. Among the services that deal directly with the business sector are judicial services, internal revenue, civil service, and regulatory bodies such as the environmental protection agencies, standards boards, investment promotion agencies as well as enforcement agencies like the police force etc., just to mention a few. All these agencies are part of the bureaucracy which can either facilitate the work of the private sector or create a bottleneck for its progress. If there is a lack of effective support and co-operation from the public sector, the private sector cannot perform adequately.

Sometimes, however, the public service is unable to provide the required support for the private sector. Firstly, the public service usually lacks the necessary logistics such as vehicles, computers, and even stationery in order to render an efficient service. Often, people seeking the services of the public sector have had to provide logistics at their own expense in order to get things done without undue delays. This sort of situation creates unnecessary cost to the private entrepreneur thus making him less efficient.

Secondly, some of the public agencies and bodies such as the judicial service and the police force are highly understaffed at the same time there is over staffing in the civil services. This means that while the police do not have enough men to provide adequate protection, wastage is also occurring through the employment of surplus staff in the civil service. The delays in clearing cases at the law courts especially for land and commercial cases could also be traced partly to the inadequate number of judges and magistrates in the judicial services.

Thirdly, salaries of public servants are generally low compared to those in the private sector. This makes it difficult for the public sector to attract and retain qualified professionals in many key areas such as the judicial service and the civil service. When governments spend their scarce resources in training their workers (sometimes abroad) they come back and go off to greener pastures in the private sector or even sometimes outside the country. Low salaries also tend to create low morale among public servants thus resulting in apathy towards work. In addition, low salaries breed corruption and bribery.

Fourthly, some public agencies are still over centralized, creating unnecessary bureaucracy. Private sector dealings with the public service are delayed largely as a result of the long process of doing things. Approvals for permits, licences, etc. often go all the way to the head of the agencies before they are granted.

In looking at the private sector, it is useful to distinguish between the local private sector and the foreign private sector. For the local private sector, we could even differentiate between the local, purely indigenous private sector and the local multinational private sector. It is important to make this differentiation because their development requires different strategies and levels as well as types of assistance or support.

The local, purely indigenous private sector is usually made up of some medium scale firms with an overwhelming number of micro and small enterprises (MSES) heavily concentrated in the informal sector. This is the group that needs special assistance and nurturing in order to become the bedrock of the government -- private sector partnership. The other component of the private sector is the foreign private sector, which is also important because of the globalization of our economies. The foreign private sector is usually forgotten by African countries in the development equation but the size of private investment resources is about ten times compared to that of total public sector Foreign Direct Investment (FDI), including the World Bank, IMF and others. It would therefore be more advantageous for us to direct efforts at attracting private sector foreign direct investments. This can be done only when we are able to develop and nurture a dynamic counterpart private sector in our various countries that can team up with these potential foreign private investors in joint ventures.

Adam Smith argued that governments' primary function is to protect their communities against internal disorders and external aggression. For the purpose of maintaining law and order and defense, governments can levy and collect taxes from individuals and corporate bodies to finance such operations. Even in this model of limited government involvement in business, government is expected to take up the responsibilities for the creation of a conducive business environment for the growth and prosperity of business; what is now known as creating an enabling environment. While acknowledging the limited role of government in business, modern business practice and the new development paradigm recognizes international competitiveness and demands a partnership relationship between government and the private sector. The partnership model has become prominent in today's world economic system of globalization and internationalization.

For African countries to enjoy growth of their economies, there is the need not only to create a stable macroeconomic environment, but also to enhance the interface between the private sector and the public service. The way the public service conducts itself determines to a large extent the growth of the private sector. For example, the way the legal system is operated in a country will help to determine the type and level of business transactions in the country. It will also determine business to business contracts as well as business to government contracts. In addition, it will determine whether business activities should be done formally or informally (i.e., smuggling).

Growth of investment could also be affected if public agencies connected to the process of licensing, etc. are inefficient and cause delays. The public service needs to provide greater support to the private sector to enhance its growth. A weak public service raises the risks of doing business and therefore discourages investments. Even where macroeconomic stability is achieved, private sector growth would not necessarily increase if there is a weak linkage between the private sector and the public service.

In spite of the weak enforcement of laws, rules and regulations in most African countries, formal business concerns spend a considerable amount of time dealing with public service agents. This situation is worsened if a more discretionary set of rules and regulations are in place; as occurs, for instance, within most customs organizations. Public servants become slow in their decision making process whenever a chain of bureaucrats has to be consulted. From the foregoing, it is quite clear that an efficient public service is essential as a partner to the private sector if the development process as per the new paradigm is to be effective.

Several recent fora between governments and the private sector operators as well as donor and international aid agencies have established a consensus on the general development priorities as follows:

- Good Governance and Transparency
- Clear Accountability
- Macroeconomic Stability
- Focus on Industry and Agriculture
- Exports Development
- Preventing Environmental Degradation, and of course
- Promoting the Private Sector to lead the development process

Achieving macroeconomic stability ranks as the most essential and important pre-requisite to private sector development, since this is a major ingredient in creating the so-called enabling environment. This, alongside with a good measure of transparency, accountability and good governance both on the part of government and corporate entities, will set the right stage for the private sector response and therefore expansion.

While development priorities may vary slightly form country to country depending on the level of development of the private sector and also their level of movement toward democratic governance, in general, the main priority areas revolve around the provision of macroeconomic stability, the development of the private sector as the engine for rapid and sustainable growth and the provision of good governance with its implied high levels of accountability, transparency and participatory approach involving all sections of the citizenry.

The foregoing analysis provides enough evidence which suggests that clearly we have no choice if we truly and sincerely want to improve our growth and sustain it, but to empower the private sector to play this new role as the engine of growth. What then should be the modalities or strategies for the development of the private sector or where they exist already in a reasonably effective state, go about expanding it to make it more effective?

In the short term, a mechanism for continuous consultations and dialogue between the private sector through their associations and the government should be established in order to reduce misconceptions of each other's roles as well as to engage in productive joint planning. In the long term, African governments should develop a sound and prudent macroeconomic framework, especially in the areas of fiscal, monetary and exchange rate policies as well as human resource, technology, and skills and entrepreneurship development.

It is quite clear that in drawing up the modalities for the development and/or expansion of the private sector, governments first must establish macroeconomic stability by restraining government expenditure, reigning in inflation and giving up on unsustainable foreign exchange rates. Governments must also work to revive private sector investment. To do this, African governments should be committed to disengage themselves from those activities which are not strategic, and to support private sector institutions.

To ensure good governance, African governments should continue to focus on democratization of civil society and provision of good and transparent leadership. A legal framework which will support private sector activity must be established. Legal reforms should seek to eliminate duplication and delays. Legal reforms designed to create the necessary legal framework that will support private sector development and give confidence to private investors both local and foreign is of high priority and should be tackled right away especially with regards to land tenure and commercial laws.

While much effort has been put into stimulating private investment at the national level, lesser consideration is given to the role that regional co-operation and integration could and should play in reviving private investment. Given the small size of many African economies, the opportunities for investing through regional integration deserve special consideration.

Thus the first step is to establish macro-economic stability. The second is to strive for good, transparent governance. The third requirement is for governments to show political commitment to private sector development and develop a new attitude towards the local private sector as a credible partner for development instead of regarding it as an adversary or opposition entity. An efficient bureaucracy or public service is an important link in the development of the private sector.

In this direction, there is the need to address the weaknesses of the public sector. There is the need to examine ways to harmonize wage policy for both public and private sectors so as to give public servants attractive salaries and raise their morale. Governments should also provide the necessary logistical support for the service. Decentralization of the public services would also make the work processes less cumbersome and reduce delays. Governments should re-examine their work forces with the view to cutting down staff in areas where they are not needed and augmenting staff in areas where there are shortfalls.

For the private sector itself, governments should encourage (but not establish) ,the formation of a coalition of private sector associations through which it can have constant dialogue with the private sector. This will help to improve communication between the private sector and the government as well as the public sector. In this direction, we in Ghana have, over the last five years, established the Private Enterprise Foundation (as a private sector initiative) which is an umbrella body for all the private sector associations and the lead organization for private sector advocacy and promotion.

In conclusion, governments should support the development and nurturing of the private sector through the improvement and stabilization of the macroeconomic parameters, provision of appropriate finance and credit, a changing of the governments attitude toward the private sector, the creation of a reformed legal sector and the vigorous pursuit of policy reforms including reform of the public service to be more friendly and supportive of the private sector. Most African countries do not yet have a coherent private sector development strategy. In addition, agencies such as the World Bank, IMF and other donors who have been used to assisting or directing their assistance to the governments, need to modify their mandates and mode of operation and offer some direct assistance to the private sector as well and the governments must encourage this.

In all our travels recently in the attempt to attract FDI to the country, one lesson has been brought down forcibly to us. This is the fact that in all the countries with well performing economies the most important contributory factor (after education) has been the discipline of their people. The success of well-performing economies of South East Asia has been largely attributable to the discipline of their people. We need to get some sense of discipline inculcated in our people.

Another attribute that we need to help promote in our people in general is honesty in dealing with each other. Again in most advanced countries, Systems that have been put in place work mainly because of the honesty and integrity exhibited by the people. If we really want to appreciate the importance honesty in our society, just think of the Customs, Excise and Preventive Services (CEPS) and the level of revenue we could bring about if we could just improve the level of honesty and integrity of the staff of this organization. Dishonesty has become such a deep rooted trait in our lives that we need to make a conscious and determined effort to change the situation positively especially in the area of intellectual and professional dishonesty.

We must also begin to show some mutual respect and some amount of trust for each other until we have cause to do otherwise. Our people are prepared to trust and respect outsiders more than our own people. Co-operation and teamwork which have helped most countries to move ahead rely heavily on mutual respect and trust. We should all therefore assist in developing these in our people.

Finally, I would want to talk about commitment. There is the need to develop a sense of commitment in our people - from the highest level to the lowest level in both government and the private sector to ensure that this new experiment in private sector/government partnership as a strategy for rapid and sustainable development is vigorously nurtured by all parties. The truth of the matter is that we have no choice. Others have been able to move at a faster rate using the private sector as the engine of growth. We can do it and we should not allow anybody to deceive us that it can be done any other way.

VI. Tuesday 16:00 to 18:00 -- Breakout Sessions

Session # 6: Overcoming Barriers to Increased Productivity and Competitiveness

Chair: Mrs. Danielle Wong, Mauritius Export Processing Zone
Rapporteur: Abdoul Barry, AIRD
Resource: Eckhard Siggel, CREFA, Canada

Comments by Eckhard Siggel

Productivity can be defined as the way in which inputs are combined to generate output. Productivity is a long term process that changes under competitive pressure. Hence free trade is needed to expand competition. Yet, when competition is fierce, firms may disappear.

Competitiveness is heavily influenced by a country's macroeconomic picture. In particular, exchange rate policy (distortions in exchange rate), interest rates, and inflation all play major roles in competitiveness. In addition to purely economic factors, infrastructure (road and rail) and labor market conditions (particularly wage rates and productivity) are significant.

Following the resource presentation, mini groups formed to think about issues and to address constraints. These groups came up with the following assessments and recommendations.

Group 1

Macroeconomic policies are the most important barriers including:

1. Overvalued exchange rate
2. Unstable fiscal policy
3. Uncompetitive financial markets
4. Infrastructure
6. Governance

Solutions: Riots or people rally to request appropriate policies

Group 2

This group sees the major barriers as being:

1. Need to make a difference between private and public firms
2. Access barriers
3. Issues of quality, timing, quality control, etc.
4. Company policy at cultural level

Solutions:

1. Downsize companies to have better management
2. Create more democratic management and transparency
3. Invest in training
4. Encourage joint ventures to improve access to finance and technology
5. Encourage efficient information collection and utilize capacity better
6. Stress education and information campaign for HIV/AIDS for prevention and emphasize food supplements instead of drugs that are temporary.
7. Profit sharing inside firms and encourage employees to own firms.

Group 3

The first binding constraint to increased productivity and competitiveness is infrastructure. Make a distinction between different investment in road infrastructure. Government, local communities and private sectors need to undertake different investments. National roads should be built by state and city or secondary roads by city council.

Need to create a road fund to ensure maintenance of existing roads.

How to finance infrastructure (roads):
1. Need to alleviate external debt burden to poor countries
2. Collaboration between governments
3. Use toll and taxes to maintain roads

Utilities
1. Need to liberalize the sector
2. Allow national public enterprises to invest in new equipment to upgrade capacity
3. Encourage regional cooperation to lower cost

The second constraint is macroeconomic constraints. Thus, need to:
1. Undertake appropriate macroeconomic policies to induce firms to invest
2. Encourage policy harmonization
3. Encourage the creation of pressure groups

Internal operation of firm can be a constraint, thus the following actions are needed:
1. Enhance general and specific training
2. Improve efficiency of management

Group 4

Recommendations are:

1. Overseas Partners

- Encourage market intelligence
- Create and improve quality standards
- Enhance technology transfer
- Encourage cultural exchange

2. Encourage the creation of business associations

- Linkages
- Advocacy
- Training

3. Encourage tripartite decisions

- Improve workplace environment
- Urge management learning

4. Application of international standards

- Encourage product specifications
- Respect labor laws (child)
- Take into account environmental considerations

5. Electrical power

- Liberalize electrical generation
- Franchise and regulate transmission
- Encourage sharing across frontiers to improve reliability over self sufficiency

6. Government harassment and excessive regulation

- Maximum publicity by reporting names of corrupt officials
- Encourage business advocacy

Session # 7 Opportunities for African Trade and Investment, Foreign and Domestic

Chair: Watipaso Mkandawire, Malawi Investment Promotion Agency, Malawi
Rapporteur: Paul Kwengwere, ActionAid, Malawi
Resource: Lucie Philips, IBI, USA

The discussion concentrated on what specific opportunities are available in Africa and how we can realize these opportunities. The group also discussed the vehicle that should be used to exploit these opportunities (i.e., domestic entrepreneurs vs. foreign investors).

The major opportunities identified included:

- Privatization
- Information technology
- Entertainment Industry
- Tourism
- Regional Trade
- Value Adding industries
- Extractive Industries

Three main challenges that lie ahead include:

- strengthening of public-private partnership
- Find solutions to our infrastructure constraints
- Making education and health a priority in our countries as many of the opportunities can only be realized once we invest heavily and smartly in these areas.

The group spent major part of its time discussing privatization as an opportunity. The following were conclusions reached:

- Privatization is a philosophy which should be carried out to reinstate the roles of the various partners in an economy. It should not be seen as a process of selling nonperforming or loss making assets of government but rather opening opportunities for others in the economy.
- Privatization cannot operate in a vacuum. It should be implemented only when policy and the relevant regulation environment back it.
- It is crucial to avoid creating private monopolies as countries privatize. One way of doing this is by instituting antimonopoly laws.
- In certain cases, for example, the Agriculture sector, experience has shown that privatization works well when it is preceded by liberalization.

Foreign vs. Local Investment

It was observed that in most of our countries local companies play a major role compared to foreign investors.

- However, although the role of foreign investors in most cases is not major, their role is vital in many ways including transfer of technology and market access.
- Therefore, countries should look at this aspect by defining linkages or partnerships that can be formed between foreign and domestic investors.
- It was, however, emphasized that promotion of domestic investment especially reinvestment should be intensified because FDI follows destinations where domestic investment is strong.

- There were some strong views against giving the same treatment to foreign and domestic investors. However, the view that same treatment should be granted under a transparent system prevailed.
- Success stories were cited of how smart partnerships bring success. KLM-Kenya Airways is a good joint venture and another example is the Kenyan Tourism industry.
- Finally in view of reduced government resources, countries were urged to consider BOT projects in Africa's infrastructure – or more appropriately it should be *BOTT: Build Operate Train and Transfer*.

Session # 8 Strengthening Family Owned and Other Local Businesses in Africa

Chair: Nora Hill, Imani-Capricon Economic Consultants, South Africa
Resource: Grace Ongile, African Capacity Building Foundation, Zimbabwe

Introduction

The definition of family owned businesses may vary from country to country but this paper adopted the following definition: Family owned and other local businesses have less that 10 employees with a turnover of less than US $ 20,000, possess assets of less then US $ 3,000 and having capital investments of less than US $ 2000.

Characteristics of Small Business People

Small business people can be grouped into two broad categories:

- **Push Factors:** Push factors that lead people to join family and other local businesses include lack of employment due to policies such as retrenchment, poor economic growth of a country, high unemployment rates and over reliance on subsistence agriculture.

- **Pull Factors:** The pull factors influencing people to join family and other local businesses include entrepreneurial skills, increased demand for additional income in the household, and hobby or leisure factors.

Strengths of Family -Owned and Other Local Businesses

Family owned and other local businesses have various strengths. These include flexibility in terms of operation; they get strong support from the family; different work ethics; the business linkages are normally simple; production process uses what would have gone to waste; and transfer skills to others.

Constraints or Weaknesses of Family -Owned and Other Local Businesses

Family owned and local businesses face constraints that hinder them from growing. These include the price of raw materials, access to finance-credit and loans, limited working capital and start up capital, social and physical infrastructure which affects their distribution networks, skill shortages such as literacy, administration, marketing, financial and business, procurement, insecurity and hostile environment.

Opportunities faced by Family-Owned and Other Local Businesses

The opportunities faced by family-owned and other local businesses are: linkages and supply of products to large firms; act as subcontractors thus ensuring continuous supply to the larger firms, i.e., part work as Cut Make Trims (CMTs) and they also require low set up initial capital.

Threats Faced by Family-Owned and Other Local Businesses.

Family owned and local businesses face competition from larger firms who enjoy economies of scale due to the large size of their firms. They also face competition from small and medium enterprises, leading to high rates of mortality among family owned businesses. The regulations and legislation lay strict rules on family owned businesses such as standards on premise and health leading to problems of registration and license. They face problems of accessibility to finance due to lack of collateral. They are very vulnerable and quite dependent on the state of the local economy. Due to the threats faced by family-owned businesses, they grow horizontally and not vertically.

Needs of Family-Owned and Other Local Businesses.

Previous research on family-owned and local businesses in sub-Saharan Africa identified the following as needs: information, one-stop-shop for registration and licensing, skill development, purchasing cooperatives, financial access, stable and secure premises, tenure to premises, formal recognition from government, improved networking and infrastructure, and identification of local business opportunities by building a strong data base. It is only after local needs have been identified that regional needs would also be identified.

Further Research

Family-owned and other local businesses need strengthening. It is important to note that since women own a large proportion of family businesses, research has to look at the constraints faced by both male and female entrepreneurs. This is important since the constraints faced are likely to vary by gender. Furthermore, women's roles are quite specific in sub-Saharan Africa and their participation in agricultural production is a recognized fact. It is only through data collection that differentiates gender that the research can influence policy aimed at strengthening family -owned businesses. Specifically, research needs to identify the following issues:

- Constraints or barriers to growth of family-owned and other local businesses by gender.
- The macroeconomic environments in which different family owned businesses are operating
- Affect of structural adjustment programs that have been adopted by most of the sub-Saharan African countries in the 1980s and 1990s. The focus here should be on specific policies that are likely to directly or indirectly affect family-owned and local business such as the trade liberalization and fluctuations in the exchange rate.
- Socioeconomic and cultural factors affecting family-owned businesses.
- Marketing linkages of family owned and local businesses.

Discussions on Strengthening Family Owned and Other Local Businesses

The discussions on strengthening family-owned and other local businesses were based on the following broad issues.

1. Small businesses face complexities and diversities. Women entrepreneurs face worse constraints than male entrepreneurs. The group suggested that small businesses are important enterprises and should be recognized as employers and contributors of economic growth.

2. Growth is necessary though not sufficient for success of small businesses. Government policy and the environment in which they operate are important factors that cannot be ignored. Specific policies that need to be addressed include, trade liberalization policies and fluctuations of the exchange rate.

3. Small businesses often do not have secure premises and are thus face hostile environment and harassment from local authority. The issue of tenure to premises so that they feel secure needs attention. Deregulation policies should be implemented such that one-stop-policy is practiced. This implies that less time will be spent in the process of registration and licensing.

4. Accessibility of finance is important for the growth and success of small businesses. Formal credit and loans for small businesses need to be improved. Experiences from some countries in sub-Saharan Africa indicate that their loan default rate is as low as 1 per cent.

5. Training is an important factor in strengthening family-owned and small businesses. Training is needed in areas such as appropriate book keeping techniques, marketing, finance, numeracy and general administration. The training can be a continuous process and can be given on request by the entrepreneurs at a fee. Training is one of the key factors that strengthen family owned business. There are various changes taking place and the entrepreneurs need to be informed to enhance their skills and compete nationally, within the region and globally.

Recommendations

1. Recognition: Small businesses should be recognized as employers and contributors to economic growth.
2. Government Policy: Macroeconomic policies should address the likely impact on small businesses. There should be separate policies for small business.
3. Financial Access: Formal loan and credit facilities should be created to help in strengthening the small businesses.
4. Skills Training: Skills of entrepreneurs require strengthening to enhance their efficiency and allow them to deal with the challenges of small businesses.

Session # 9 Enhancing Corporate Governance: Transparency and Accountability

Chair: Ngure Mwaniki, Mwaniki Associates, Kenya
Rapporteur: Hamet Ndour, REMIX, Senegal
Resource: Simon Zukas, Balmoral Farm Ltd., Zambia

Key issues discussed and recommendations.

1. Corruption is the central issue in the subject of Corporate Governance. It is common practice in both government and private organizations. Corruption undermines good governance and poverty promotes corruption. Some basic cultural characteristics may help increase the incidence of corruption. For example, the view that public resources are “gifts from god” allows people to ignore the fact that, at some point, all public resources are generated by someone’s effort.

2. Main issues of corporate governance raised importance of (I) codes of conduct; (ii) clear mission statements; (iii) management manuals; (iv) training of directors; (v) "an integrity pact" between and among private sector organizations on ethical practices and standards; (vi) importance of declarations of interest, full disclosures; (vii) role and integrity of auditors; (viii) importance of reexamining the Companies Act for revisions to ensure compliance with current principles of corporate governance.

3. A common definition of corruption is the use of bribes from private businesses to public officials to obtain favors. This is an extremely limited definition, however, and we should look as the problem more broadly. Corruption also includes:

- Collusion between firms on pricing and tendering issues.
- Corrupt practices by foreign investors.
- Under performance by bureaucracies.
- Misuse of time by civil servants (e.g., in traveling so as to gain per diem).
- Doctoring of professional reports (e.g., by audit firms to cover irregularities or to misreport performance).

4. The dearth of literature on African practices of corporate governance was noted and the low profile of Corporate Governance as a subject of research on growth issues was regretted. Need for a coherent research program to cover the analysis of corporate governance was expressed.

5. The connection between macroeconomic reform and corruption was discussed, e.g., rent seeking resulted from exchange rate and price control regimes.

6. Poverty and a pervading "culture" of corruption were cited as threats to good corporate governance. Once corruption reaches a certain level, it becomes harder to dislodge.

7. Importance of reducing conflicts of interest between public and private sector roles was emphasized.

8. Need to examine suitability and applicability for adoption of the OECD international code of conduct and establishment of institutions for national codes of conduct such as the Institute of Directors in the U.K.

9. As in three above, should go beyond the narrow definition of corruption as bribes to public officials. The definition should include:

- Collusion, antitrust and private dealings between private sector firms.
- Intra government corruption - abuse of tax payers money and public office, absentee workers, underperforming so as to attract increased budgetary resources.
- The work of Transparency International in widening the understanding and scope of corporate governance was cited along with a new initiative by OECD countries to forbid kickbacks and other corrupt practices by firms who operate in their countries.

10. Need to go beyond establishment of rules and regulations to enforcement, sanctions and rewards. Importance of self-regulation in industry sectors and the professions. Recommendations for implementing these objectives included:

- Training managers in ethics and leadership
- Promoting viable audit systems
- Establish a “pact of integrity” among private sector firms and between private firms and governments.

VII. Wednesday Morning Plenary Session

Keynote Address by Felix Kani, Program Economist, SADC

AFRICA IN THE GLOBAL ECONOMY

The SADC Region is one of the richest regions in Africa. However, it remains one of the largest under exploited markets in the world, especially when one considers the SADC population of 190 million people and the combined GDP of US$176 billion together with the abundant natural resources in Mining, Tourism and Agriculture. SADC is a region waiting to be developed. In spite of such enormous economic potential, Africa lags behind other continents in development. It is this realization that has encouraged many African countries to undertake wide-ranging economic reforms.

Collectively, the Lagos Plan of Action (1980) and subsequently, the Abuja Treaty, which led to the idea of an African Economic Community, reflect political will to compete in the world economy. Indeed, Africa faces the danger of being marginalized unless the regional economic groupings such as SADC can truly serve as building blocs for an African single market as envisaged by the Abuja Treaty.

After many false starts in Africa in the past, the concept of an African Renaissance is providing fresh hopes and new expectations. Many challenges lie ahead but opportunities abound provided the current emphasis on regional integration is sustained and trade is given its rightful role as an engine of economic growth.

For SADC, integrated development of the region as a whole is a priority. Despite the vast disparities in the levels of development and structural features of the 14 SADC member countries, all could benefit from regional integration and cooperation. The promotion of economic growth and development is of paramount importance as the economies of African countries are interdependent.

This presentation will provide examples of how SADC is moving forward in regional cooperation and the argument will be made that much of what is being done here can also be done elsewhere in Africa. The specifications and peculiarities of SADC make an interesting discussion of the lessons from recent Asian experiences and calls for reduction in barriers to cross-border trade. Regional integration and cooperation in Africa are seen as the means to an African revival.

Macroeconomic performance in the SADC Region

The performance of the African economy in recent years has been impressive. The 3.3 percent growth in GDP in 1998 compared with 2.9 percent growth in 1997 was the highest among regions of the world. Although this was the fourth consecutive year that GDP growth grew faster than population, African economies will still need to grow at rates of above 6 percent to have a significant impact on poverty. By contrast there was a slowdown in 1998 economic activity in the SADC region, where real GDP rose by only 1.7 percent in 1998. This represents quite disappointing performance when compared with the sound growth rate of 2.2 percent of 1997 and the even more encouraging growth of more than 4.1 percent in 1996.

Per capita income (measured as GNP per capita) fell by 1.3 percent in 1998, after having already declined by 0.4 percent in the previous year. Based on data of the African Development Bank, average GNP per capita for the SADC region amounted to US$988 in 1997. If South Africa is excluded, SADC 1997 income per capita averaged US $ 334.

Investment

One of the factors accounting for the sluggish performance of the SADC economy was a marked reduction in resource flows. Both foreign direct investment and official development assistance have been falling while domestic savings were at the level which cannot support the investment expenditure needed to give fresh impetus to growth.

Direct investment and bilateral credit to Sub-Saharan Africa, which includes SADC, has fallen in recent years. The resource gap has been widening and reflects the region's continued dependence on foreign resources. Domestic Investment went only up marginally. Therefore, it could not offset the decline in foreign resource flows.

If SADC is to make a dent in poverty and create gainful employment, there is need for the region to grow on average by more than 6 percent per annum. SADC needs at least 6.2 percent growth to reduce poverty. In comparison, North Africa requires 5.6 percent. The rest of the sub regions require higher growth rates. The policy implication of this is that, with its enormous but untapped potential, SADC needs only to accelerate the rate of growth by another 3 percent to attain the level that is needed to reduce poverty. For this reason, there is need to identify the sources of growth that can meet this requirement.

SADC requires investment of at least 37.8 percent of GDP to support the poverty-reducing GDP growth rate of 6.2 percent. However, given the current savings rate of about 19.6 percent, the subregion needs about 18.2 percent in external resources. At present 11.8 percent (excluding to South Africa) comes in the form of official development assistance. This would suggest that if the current level of ODA is maintained, then SADC would need only about 6.4 percent residual financing, possibly through foreign direct investment.

In the light of the above analysis, poverty reduction should continue to be a top priority for SADC. This is particularly so in view of the fact that 40 per cent of the SADC population now lives in abject poverty. The challenge is enormous, but SADC can meet it, given the political will that exists and the abundant human and natural resources available.

Trade

Although SADC has largely been unaffected by the financial crisis in Asia, the consequences of the recession in emerging markets were transmitted to the region's balance of payments. Some of the SADC commodity exporting countries, including Botswana and Zambia, were hard hit by the pronounced decline in commodity prices, particularly for minerals during 1998. While Botswana had recourse to its huge foreign exchange reserves, it was more difficult for Zambia.

According to IMF estimates, sub-Saharan Africa suffered a decline in its terms of trade of 9.1 percent in 1998. The IMF further estimated that, on average, sub-Saharan real income (GDP) declined by 2.4 percent as a result of the 1998 fall in commodity export prices for their exports and the decline in fuel import prices. The decline in commodity prices was more pronounced in agricultural raw materials and metals. In addition, export prices and volumes fell. The terms of trade fell by 13.4 percent reflecting a hostile external-trading environment for SADC. This exerted enormous pressures on the balance of payments.

Overall, the Asian crisis has slowed the process of trade and exchange liberalization in SADC. Still, on balance, there has not been an intensification of exchange control regimes. The Trade area is one of the most important pillars of SADC's integration. Even before adoption of the Trade Protocol, SADC is experiencing increasing intra-SADC trade which, increased from 22 percent in 1995 to the estimated 28 percent in 1997. It is also estimated that 70 percent of goods (in value) traded within SADC attract less than 10 percent tariffs, leaving only 30 percent of the goods at tariffs above 10 percent.

Negotiations on tariff reductions are at an advanced stage. The creation of a Free Trade Area will bring to the region increased benefits not only in terms of intra regional trade, but also in terms of attracting foreign direct investment. Any delay in implementing the Free Trade Area, makes it the more likely for SADC to lose on attracting new investments and new technologies. With the progress achieved so far however, there is no reason SADC cannot achieve the implementation of the Free Trade as scheduled by the new year.

Member States of SADC are committed to bringing a region that is politically at peace with itself. Conflict resolution and management is therefore, an important aspect of SADC regional integration processes. Investors will not go into a region that is embroiled in political turmoil. One of the great achievements SADC has made on the political front has been to establish mechanisms for resolving conflicts.

Policy Harmonization

The most important asset of SADC for eventually bringing about effective integration is the unquestionable commitment of member States to create a large, economically viable and unified Southern African Region. A relatively homogenous macro-policy framework in the Region represents another important decisive factor in facilitating the region's integration. Almost all member States have embraced democracy as the best political system of ensuring good governance. The management of member States' economies according to market forces has been accepted as a general principle. This has brought about an important supportive global environment for the integration process.

Outside the formal structures of SADC, and in keeping with the objective of ensuring that the Community involves all stakeholders, some progress has been made. For instance, a regional NGO body, the SADC Council of non-Governmental Organizations (SADC-CNGO), with the main task of mobilizing and harmonizing NGO input to SADC efforts, has been established. The Southern African Regional Police Chiefs Cooperation Organization (SARPCO) was established to promote cooperation in combating cross-border crime and is fully operational. There are also several regional organizations of a similar nature. These include private sector organizations such as the Association of SADC National Chambers of Commerce and Industry (ASNCCI) and the South African Enterprise Network (SAEN). The SADC Parliamentary Forum was also established to ensure that the National Legislative Assemblies are kept abreast of the activities being implemented in SADC.

Energy

The Energy Protocol was activated on 17 April 1998 after attaining the required number of ratifications. Central to this Protocol is the need for a co-ordinated approach to energy strategy formulation and planning in the region. The objective is to promote the harmonious development of national energy policies and matters of common interest.

The electricity sub-sector is the most advanced in terms of its contribution to regional integration. The plan to set up the Southern African Power Pool (SAPP) at regional level is dated back to 1984 although it only began its operations in 1996. Building on the spirit of SADC, Member States agreed to strengthen regional cooperation in order to co-ordinate and cooperate in the planning and operations of electric power systems. The idea behind this was to rationalize the use of existing systems, to optimize water resources utilization, to minimize investments as well as production and operating costs, to minimize losses in generation and transmission systems, thus improving the reliability and safety of the respective systems.

Benefits arising from the creation of SAPP are already evident. Utilities in the region are already cooperating in the joint planning of projects and studies, including the joint sharing of knowledge in areas such as technology and statistics. Inter-utility training of personnel in disciplines such as management, finance, technology and system operation has been accelerated. In addition, specialist expertise is now being shared between signatories of the SAPP.

Moreover, substantial resources are being saved through the postponement or shelving of investments that would have otherwise been made by individual utilities. The interconnection of electricity grids is a significant step toward a unified regional market, allowing producers to reap substantial benefits by drawing on other member States surpluses. At the same time, low production costs will also increase the competitiveness of regional producers and can therefore play an important role in increasing intra and extra regional trade, and attracting foreign investment.

SAPP will benefit consumers directly through lower prices for their domestic electricity requirements, and indirectly through lower prices of regional electricity by-products. SAPP stands as a classical example of the benefits of integration which member States have successfully taken advantage of.

Environment and Land Management

A major initiative that will be undertaken in the very near future is the development of a SADC Charter on the environment. The Charter will provide a legal basis for implementing common approaches and adopting common codes for environmental protection in the region. The Charter will also provide a regional basis for the implementation of international environmental conventions. In short, the Charter will represent a regional expression of global environmental agendas, and will also become a vehicle through which these agendas can be implemented. Specific Protocols covering other regional environmental issues are in the process of being developed.

Finance and Investment

In the Finance and Investment Sector, a number of policy changes and economic reforms have moved the region to deeper integration. The region is implementing economic policies that are meant to maintain macro-economic stability, low rates of inflation and low budget deficits.

Most of the member States are implementing indirect monetary policies and have liberalized exchange controls quite substantially. All Member states have liberalized their current accounts. Controls remain on the capital account in the majority of Member States except for Botswana, Malawi, Mauritius and Zambia who have no exchange controls anymore. For those countries still having exchange controls on the capital account, higher limits for regional cross border capital remittance than the to the rest of the world have been introduced. For example South African investors can remit up to R250 million for regional investment while for the rest of the world the limit is R50 million. Due to this higher limit for SADC, the region has experienced an increase in intra-SADC investments.

Following up on this, the Central Banks in the region have developed a network in information technology, which enables them to exchange information instantly and they have an interactive web site. The Central Banks are also in the process of introducing electronic payments and settlement systems in the region. SADC Central Banks are already sharing training facilities in their effort to enhance capacity in central banking and bank supervision. The South African Reserve Bank Training institute and the Tanzania Central Bank Training Centre are providing the much-needed facilities for training.

The Stock Exchanges in the region are also being networked and are harmonizing policies, legislation and regulatory frameworks to allow cross listing in the region. Listing requirements have already been harmonized and more activity is expected on the region's Stock Exchanges. There is also an initiative by the Stock Exchanges to introduce automated trading systems into all SADC exchanges. This would improve transparency, liquidity, security, price formation and reduce the cost of trading, thus making SADC markets more attractive to local and international investors.

With regard to investment, the SADC Investment promotion Agencies are working on the establishment of a network for exchange of information with the objective of promoting the whole region as viable investment destination. The development finance institution are at the same time trying to find ways of mobilizing regional resources for co-financing investments in the region.

Food Agriculture and Natural Resources Sector

This Sector remains the backbone of most economies in the region with 70 – 80 percent of the region's population and labor force still dependent on agriculture for subsistence, employment and income. As the region proceeds with industrialization, agriculture is crucial in providing raw material and purchasing power, which facilitates this transformation. The issues of increasing production and productivity as well as intra-regional trade are important. The issues receiving increased attention include, household food security and regional food security based on trade instead of national food self-sufficiency; promotion of long term sustainability rather than emphasizing output; encouraging private sector and individual participation rather than government; and promotion of diversification, particularly in semi-arid areas.

Although Protocols in the other FANR Sectors are still being developed, regional co-operation and integration is already taking place. To date, several programs have been developed and are demonstrating the benefits of regional co-operation. One of these is the "Regional Early Warning System". This program has made significant progress in the collection and analysis of information, and the compilation of regular national and regional food security bulletins. The "Remote Sensing" component of it has strengthened the regional capabilities in the area of remote sensing for early warning and food security.

Mining

The Mining Protocol, which was signed in September 1997, provides for the harmonization of national and regional policies, strategies and programs related to the development and exploitation of mineral resources in the SADC region. The ultimate objective is to promote the interdependence and integration of the region's mining policies for the accelerated development and growth of the sector with a view to achieving competitiveness and increasing SADC's share in international mineral markets. The Protocol has been ratified by six member States.

The SADC Mining Sector continues to be the backbone of the economies of most of the member States contributing about 60% of the foreign exchange earnings and 10% of GDP. The sector is in the process of organizing an investment forum which is scheduled to take place in December 1999. An earlier forum organized in 1994, was a great success and attracted close to 150 potential investors from Europe and North America

The major challenge facing the region is to find ways of adding value to the region's minerals in order to enhance competitiveness, increase SADC's share in international mineral markets and hence maximize foreign exchange returns. In this regard, the sector is due to undertake, with financial assistance from the SADC Secretariat, an Analysis of Opportunities for Value Addition to Minerals.

Transport

The Transport, Communications and Meteorology Protocol entered into force on 6th July 1998. The SADC Member States have taken up the challenge to develop and provide an efficient, cost effective and well-integrated transport and communications network that will facilitate the smooth flow of goods, persons and information across borders. For example all relevant stakeholders are being encouraged to establish Corridor Planning Committees (CPCs), in order to improve operational efficiency.

SADC's major achievement has been on the building and rehabilitation of roads to link Member States. The Projects that have recently been completed include the Trans-Kalahari and Trans-Caprivi highways. The routes have started to make an impact on cross border travel on people, goods and services. However, still more interconnections need to be established, including links to Angola with Zambia by road and the rehabilitation of the road link between Angola and Namibia.

The transformation of the traditional transport corridors into Spatial Development Corridors represents a landmark achievement for SADC's long term development. These Development Corridors like Maputo, Walvis Bay, Tazara, Nacala and Lobomba, can generate sustainable economic growth to the presently underdeveloped areas of the region.

Railways in the SADC region are mostly operated on a corridor basis and networks are fairly in good condition and interconnected. Very important projects are being implemented, including track condition assessment and stabilization, rolling stock management information systems, joint marketing and operational improvement, standardization and training of personnel. Member States are looking to the private sector to provide the needed investment for the railway system rehabilitation and concession arrangements are being pursued or investigated.

The Telecommunications sub-sector has undertaken the upgrading and linking of the SADC Member States through a network of terrestrial and satellite systems. This has facilitated direct routing of telecommunications traffic between Member States. In addition, regional co-ordination and co-operation is being strengthened through the transformation of the Southern African Telecommunications Association (SATA) into an industry association and the formation of the Telecommunications Regulators Association of Southern Africa (TRASA).

Air transport infrastructure is nearly adequate at present, and is in the process of being improved. Institutional reform is well underway in the sub-sector, and a regional integrated air traffic safety is under development. Entry into the air transport services market is in the early stages of liberalization.

Water

The Protocol on Shared Watercourse Systems, the first ever sectoral legal instrument to be developed in SADC, came into force on 28 September 1998. The signing of the Protocol in 1995 and the establishment of a new SADC Sector on Water in 1996, represent a clear recognition by SADC of the importance of water and the need for an integrated approach to the development and management of water resources in the region.

In the context of Southern Africa, sustainable socio-economic development – and indeed life – begins with water. Water does not only occupy a strategic position in the improvement of the quality of life in individual member States, but also in the collective efforts for development through regional integration. In a region like ours, where about 70 per cent of the available water resources is accounted for by watercourse systems that are shared by two or more States, the development, management and utilization of water resources is unthinkable without inter-State co-operation.

It has been recognized that given the increasing competition for the use of these trans-boundary waters, the absence of balanced cross-boundary and cross-sectoral integration of water use, riparian countries may easily get into conflicts. A daunting challenge for the region is to ensure equitable utilization of the scarce water resources, not only between member States, but also between communities in individual countries and the various contestants such as agriculture, energy, industry, the environment and people, especially the poor segments of our societies.

The Protocol on Shared Watercourse Systems sets out rights and obligations of member States in respect of the shared waters. Water Resources Technical Experts, assisted by Legal Advisors have been working hard on reaching consensus on amendments to the Protocol to ensure that each contestant to this common resource gets a fair share, in terms of quantity and quality. It is heartening to note that consensus has now been reached.

SADC Secretariat-Private Sector Co-operation

The SADC Secretariat recognizes the importance of private sector participation in community building. Following economic reforms that have taken place in the region, the private sector is now regarded as the engine to drive the development process in this region. Currently, SADC

Secretariat is working with two private sector organizations recently launched namely, the Association of the SADC National Chambers of Commerce and Industry and the Southern African Enterprise Network as well as national Apex Chambers of Commerce and Industry. All these private sector organizations seek to increase their participation in the regional economic process in Southern Africa to encourage a faster and more practical move towards a unified Southern African regional market.

Protocols: Tools for deepening Regional Integration

In previous sections, SADC's progress in terms of the negotiation and finalization of protocols in various areas has been highlighted. However, the protocols do not represent an end in themselves, but rather the beginning of our efforts towards integration. In other words, Protocols are a necessary but by no means sufficient condition for regional integration. It must be stressed that the full ratification of protocols is an absolute necessity to enable their implementation in order that individual member states and the region as a whole can begin to ripe the benefits of integration.

For the Protocols to be seen as meaningful and beneficial, it is crucial that in the process of negotiation, we must ensure that the interests of each and every Member State are taken on board and that the end product represents the collective aspirations of the region. It is only in this way that we ensure a balanced development of the whole Region. In other words, at all times, we should seek to establish a symbiotic relationship which will result in win-win situations.

Concluding Remarks

There is no doubt that whatever SADC has achieved since its transformation from a Co-ordinating Conference to a Development Community, came as a result of tremendous sacrifice for Member States. As indicated in this report, SADC is in the right path.

Poverty reduction should continue to be a top priority for SADC. It is particularly so in view of the fact that 40 per cent of the SADC population lives in abject poverty. The challenge is enormous, but SADC can meet it given the political will that exists and the abundant human and natural resources available. Progress in poverty reduction will only come about through sustained and broad based economic growth, complemented by efficient provisions of social services such as education, health care, clean water, sanitation and nutrition.

Enhancing the volume and productivity of the investment is key in bringing about accelerated economic growth. The goal of increasing investments could be pursued to good effect if systematic support is provided to the private sector so it can mobilize resources and become the main engine of economic growth. This is because government budgets on which so much dependency has been placed in the past, would be unable to mobilize the volume of resources required to generate the high rates of growth necessary for poverty reduction.

In spite of the ongoing conflicts in Angola and the DRC, and the decline in the performance of the economies, the SADC Region is headed for greater regional integration. Measures adopted in the past are beginning to yield positive results especially in the Energy, Mining, Transport and Communications Sectors.

The challenge for SADC is now to bring about accelerated economic growth, create more jobs and reduced poverty so that its peoples can enjoy a higher quality of life. As a suggestion to the breakout sessions – How can the surpluses and wealth in some SADC countries best be transferred to balance for the deficits in other SADC countries? Is there scope for intra-SADC investment? What needs to be done to realize this? These are some of the questions that policy makers and researchers such as you need to address.

VIII. Wednesday Morning Breakout Sessions

Session # 10 Lessons for Africa from Recent Asian Experience

1. Level and quality of Education and use of educated labor: Noted that the SEA miracle was founded on high levels of human capital accumulation and utilization. Thus, Africa badly needs to focus more on raising the level and quality of education as well as the efficient use of its educated labor.

2. Increasing and sustaining higher savings rates: All SEA countries achieved high savings rates and sustained these high rates through. Much as foreign investment is important for fostering growth, growth has largely and always been financed by internal savings. A key lesson for Africa from the Asian experience is therefore that increased savings mobilization and sustaining high savings rates is imperative for faster growth in Africa.

3. Pro-growth Leadership: As in the case of SEA countries, Africa needs to have leaders who have a clear mission, who champion and identify themselves with the development objective, who are committed to macroeconomic stability and consistent policy. Africa must vehemently reject leadership that is bent on looting the continent to accumulate personal and family wealth

4. Africa needs to focus on country specifics in both Asia & Africa and elsewhere, (e.g., demographic characteristics, natural resource endowments, climate), to get ideas to accelerate African development. Generalizations can be misleading. Thus, Africa needs to go beyond regions and look for specific similarities and factors, within and between countries, to draw key lessons for development. Africa should not look to adopt the Asian model but rather take specific situations and features which led to success in Asia and elsewhere.

5. It is vital to harness the rich African culture for development. It was noted that culture played an important role in galvanizing development in SEA countries. However, although there are general cultural similarities between the SEA and Africa (e.g., primacy of the community over the individual), there are profound differences between them. The important issue however is for Africa to be able to create circumstances to exploit elements of its culture, particularly those that enrich individual and collective accountability, to foster development.

Session # 11 Implications for Africa of Initiatives by WTO, European Union and the U.S.

Chair: Frank Ofei, ECOWAS, Nigeria
Rapporteur: Dirck Stryker, AIRD, USA
Presenter : Daniel Plunkett, AIRD, USA

The chair opened by noting a number of important issues that the current session should seek to answer:

- Can market forces be influenced by multilateral agreements?
- Is Africa relegated to being a "taker" rather than a "maker" in these agreements?
- Is it a "taker" in trade and in the exchange of technology?
- In other words, can it influence trends in these areas or not?
- Should there be an effort to come up with a new comprehensive development framework or should we be satisfied with the current structures?
- Is Africa prepared for the Seattle meetings or not?
- How is Africa coping with the current multilateral agreements?
- Are African interests being heard in these negotiations or not?

The Presenter opened his remarks by noting the multiplicity of trade agreements affecting Africa, including discussions at the WTO, and with the EU and the US. He noted the increasingly technical nature of these discussions and the rapidly growing number of areas in which discussions are taking place. These trends have increased the difficulty of any actor participating effectively in these discussions.

With respect to the WTO, the importance of participating is increasing for Africa as the transition periods in which it was exempt from many rules are almost expired, and therefore rules will now become binding on African countries too. (For example, the use of reference pricing in trade policy is no longer allowed.)

Mandated areas for WTO discussions are Services and Agriculture, although other areas are also likely to be added. Members attending the Seattle conference can influence the agenda of issues which will be set there. Some may seek to include E-commerce.

In agriculture, African countries could be strongly affected by policies which could impact food security. Examples include cutting tariffs on agricultural commodities or lower surpluses due to reductions in domestic support. The move to price based means of protection will eliminate use of quotas and other non-tariff barriers. As tariffs fall, the fiscal impact on developing countries could be more important than for developed countries. The elimination of export subsidies on food commodities could represent the loss of transfers to net food importers. While the US and the Cairns Group are trying to get rid of export subsidies, Africa may want to focus on other topics. Another issue is price stabilization; with greater price transmission, food prices are expected to become more variable on highly-protected domestic markets, but less variable in international markets.

The use of phyto-sanitary restrictions on trade needs to be examined as well to assure that it does not become a substitute for tariff protection. There are also important bio-technology issues that need to be clarified, especially as this industry seeks to find new material in the third world. One issue is how royalties should be shared, another is on the kinds of patents that will be allowed on genetic and seed technology. It is expected that a convention on intellectual property rights will be concluded by 2004.

The Post-Lome situation is approaching as Lome expires in February 2000. There is an attempt to broaden Lome to apply to all developing countries. In effect this would be like creating a multilateral generalized system of preferences for developing countries.

How the private sector will be affected is another issue. Is it fair to insist on reciprocal access in developing countries where the private sector is much weaker than in developed countries? One approach might be to seek arrangements that would attempt to stabilize import expenditures through a STABIM much as STABEX seeks to stabilize export earnings.

Regarding the USA, the WTO is expected to move multilateral agreements to its position because WTO reflects US values in trade. The US does not provide enormous amounts of development assistance, with much of it typically regional or topical in nature, such as the Leyland initiative. For instance, the Africa Growth and Opportunities Act will seek to eliminate all quotas on textiles by 2005. It also promises investment in Africa in return for privatization and adherence to macro-reforms.

In Africa, an important problem is that only the top people are aware of the issues. Moreover there is very little economic research to brief decision makers on the impact of their negotiating positions. In general, Africa needs to do a lot to prepare.

Questions from the floor included:

- Will the Multi Fiber Agreement be incorporated into WTO and if so what will be the impact?
- Are EU requirements and regulations on pesticides consistent with faire trade? They seem

to be applied for projectionist reasons. How will WTO deal with this?

- The paper seems too optimistic that African can effectively participate in WTO, but Africa is not ready. It is ill equipped to negotiate and has nothing to sell. WTO sets common rules for people with little in common. Why is Africa being asked to play by the same rules as everyone else? Should there be clear criteria for membership? Should Africa participate at all?
- The Africa Growth and Opportunities Act may be a big failure because it requires countries to be in full compliance with the IMF and few countries are.
- The presentation recognizes African limitations in participation in negotiations, so what is the solution? Phytosanitary restrictions are being used as non tariff barriers and Africa does not have the equipment nor resources to overcome these restrictions. Nor has it been consulted on setting the initial standards.
- What is the list of commodities to be affected by the Africa Growth and Opportunities Act?
- What will be the effect of Africa Growth and Opportunities Act on the corporate taxes?
- Has any coherent position been elaborated for African countries on these issues?
- The European Union is calling for REPAS, while the ACP countries are against it. Is there a fall back position?
- In the post-Lome environment, will there be a move to generalized multilateral systems of preferences. Is the REPAS system GATT compliant? Will it not divide African countries between the better and worse off, and if so will it not divide the African position?
- What impact will the “blue round” on labor and the “green round” on the environment have on Africa?
- What are domestic agendas for African countries? It seems there are too many technicalities to master them all, and therefore African countries must be selective.
- If the big organizations cannot articulate a position for Africa, then what is their role?

Responses

The Multi-Fiber Agreement is part of WTO, but it has been back loaded such that when quotas finally go, it may not be good for Africa. The MFA and the Dairy and Beef commodity agreements allowed a la carte joining.

Regulations regarding sanitary and phytosanitary (SPS) issues are a nation’s sovereign prerogative. It requires constraint to avoid backlash. It requires creation of a third party dispute mechanisms for addressing conflicts.

SPS and state trading enterprises, and monopoly regulations will become more important as tariff measures come down.

The AGOA requirements for lowering corporate taxes must first examine the broader effects on the economies affected.

The question of harmonizing Free trade agreements and multilateral rules only starting and could create havoc.

The need to incorporate labor and environmental standards into WTO is being studied and ministers will have to give the mandate to start the negotiation process but this is not likely to happen at Seattle.

The question of the level of development for participation in multilateral negotiations suggests at least a need for a pause after the agenda is set in Seattle to allow countries time for analysis before negotiations begin. Africa needs to develop some common positions and hold together to have clout in the negotiations.

The Chair added the following summary points:

- Africa has the opportunity to get involved in multilateral trade negotiations and is obligated to do so.
- There is a need for policy coherence based on specific development priorities with a long term perspective.
- There is a lack of African capacity to do this.
- African negotiators need to be better equipped with technical assistance and analysis to help Africa step up in the negotiations.
- There is a need to identify specific issues that should be focused on by Africans in the negotiations.

Session # 12 Reducing Barriers to Cross-Border Trade

Chair: **Nafissatou Guindo Konare, Ministry of Industry, Commerce and Handicrafts, Mali**
Rapporteur: **John Dadson, University of Ghana, Legon, Ghana**
Resource: **Jeffrey Metzel**, **AIRD, USA**

Taxation of cross border trade remains too heavy, too confusing and too unpredictable.
- *Reduce levels and simplify the application of taxes*
- *Make regulations more broadly known to the private sector*

Illicit or abnormal taxation remains a principal constraint to cross border trade.
- *Increase the autonomy of customs agencies to remove them from political influence*
- *Raise customs agent salaries to reduce temptation*
- *Increase sanctions on illegal behavior*

Regional initiatives have been ineffective in promoting trade.
- *Let markets, rather than political initiatives lead the development of trade*
- *Seek greater coordination among regional business actors*

Transport infrastructure to support cross border trade is woefully inadequate. Particular problems include the poor state of rail transport and the lack of bulk handling facilities.

- *Privatize railroads*
- *Introduce facilities for container transport*

Market information remains an important constraint to cross border traders.

- *Analysis of changes in consumer trends is needed to identify opportunities*
- *Timely price data are needed to make efficient market decisions*

Session # 13 Regional Integration and Cooperation in Africa

Chair: Rashad Cassim, TIPS, South Africa
Rapporteur: Eckhard Siggel, CREFA, Canada
Resource: Daniel Ndlela, Zimconsult, Zimbabwe

The discussion can be summarized by the following conclusions:

(1) Economic integration has been on the agenda of African policy makers for more than thirty years, but progress in implementation is very slow. One of the striking features of the discussion is that there is only scant recognition of the benefits of integration. This is not surprising because the (static) benefits of trade creation are often canceled out by the costs of trade diversions.

(2) The discussion focuses mainly on the constraints to integration, in particular the loss of government revenue, given the strong dependence on trade taxes. The direct revenue loss is likely to be overstated, as regional trade is relatively small.

(3) It was felt that the private sector needs to be much more involved in order to achieve more progress in integration. Also, more public awareness is needed, as integration enhances civil society.

(4) Economic integration is not limited to trade. Other areas affected are capital market development, cooperation and trade between utilities, and the labor market.

(5) The timing and sequencing of the stages of integration are not always given due consideration, but both are important issues influencing the success of implementation.

IX. Panel Discussion: Education and Institution Building in the Service of Policy Formulation

Chair: Diery Seck, IDRC/SISERA
Panelists: Abdoulaye Diagne, CREA, Senegal
Njuguna Ng'ethe, University of Nairobi, Kenya
Germina Ssemogerere, Makerere University, Uganda
Dominique Njinkeu, AERC, Kenya

Aboulaye Diagne

In the 1980s, there were significant efforts applied in Africa to develop the capacity of African institutions. These efforts took place on both a regional, continent-wide and language-specific basis. These efforts helped to unite researchers and contributed to the advance of economic and policy-based research in Africa. Networks were established that generated channels for information sharing and broader scope for peer review.

In spite of these successes, many challenges remain. Africa's progress in the next millennium will depend on how well Africans meet these challenges. In this brief presentation, I will focus on four of these challenges.

The first of these challenges is the need for regional groupings in order to achieve the critical mass required for sustaining progress. Countries must pool their efforts and resources if African countries want to produce high level analysis and to develop and maintain advanced degree programs in economics. We believe that the initiatives like those of AERC, that unite the efforts of African educators and researchers, should be duplicated so that Africa can reach this critical mass required for progress. In addition to bringing together the disparate resources of national programs, Africa can benefit from further development of distance learning.

Second, once achieved, the level of economic education in Africa needs to be maintained. In order to do this we will need to bring additional resources to bear. It is less clear where these resources will come from and this needs to be studied.

The third challenge is to bring African leaders at the national level to rely to a greater extent on domestic expertise in economic policy research. In putting together policies and undertaking dialogue with international institutions, governments should rely to a greater extent on economists from their own countries. It is difficult to see how Africa can move forward without developing improved capacity to generate African solutions to African problems.

The fourth challenge is to develop local research institutions that are able to address the problems confronted by African economies. Experience with regional networks shows that if researchers do not work to attract the attention of decision makers and do not advocate and extend their findings, then research impact will be lost. In order to expand the impact of African research institutions it is necessary to have a permanent dialogue between researchers and decision-makers.

There needs to be significant efforts made so as to maintain and expand skills in economic and social research and training in Africa.

Njuguna Ng'ethe

The Council for Social Science Research (CODESRIA) which is based in Dakar is one institution that has attempted to increase capacity for economic and social analysis in Africa. Another is the Organization of Social Science Research in Eastern and Southern Africa. These two institutions have carried the banner for advancing capacity for economic and social research in Africa. They have helped to provide networks for researchers working here.

However, when one reviews the achievements of these two organizations, it is clear that they have not been focused on policy analysis issues. While the research supported by these institutions has focused on policy, it has not focused on critical analysis of economic policy and topics relevant to the issues that countries needed to address. The reason these institutions have not focused on policy analysis is partly given by the fact that African researchers themselves have not focused on such work. Indeed, most African researchers have focused on socioeconomic issues that are not analytical in nature but which respond to political realities in countries where these researchers work.

Most African economic programs have not traditionally had programs for training students in policy analysis. The reason for this, again, is political. There was a time when talk about critical analysis of national policies was enough to bring a police officer to your door. At the University of Nairobi we did an analysis of the supply and demand for engineers and we found that the University was producing an excess quantity of structural engineers. The seminar wherein we were to discuss these findings was canceled by the University because it questioned what the University was doing. This environment was not conducive to the development of critical policy analysis.

In Kenya, the climate has changed and we have begun to develop programs that will expand capacity in policy research and analysis. We have created an institute of policy analysis and research with funding from the African Capacity Building Foundation. Within the government there is a sister institution – The Kenya Institute of Public Policy Research – which has come about, in part, as a response to demand for capacity in this area as a result of structural adjustment.

Things are moving in the right direction but there are several common challenges in the development of these new institutions. First is the issue of sustainable funding for these institutions. Many have been funded by the donors without any long-term funding arrangements. Somehow we must find means for sustaining these institutions when the donor money runs out. Secondly is the fact that Africa does not yet have a critical mass of good policy analysts in our universities. The consequence of that is that we have a small group of analysts circulating among these institutions. We must find a way to multiply these analysts and we need to stop poaching from one another. Joint activities are one way to do this. New ways of training new, indigenous policy analysts must be found, either by appending training to every activity that we do or by sending our young researchers overseas for further training.

Finally, there is the issue of what type of programs that these new institutions are putting into place. The question is whether institutions should focus on a single topic such as macroeconomic analysis, or whether they should be multi-disciplinary in their approach. Policy analysis is not simply macroeconomic analysis. One must as well undertake analyses of key sectors such as agriculture and industry. Of course, designing effective multi-disciplinary programs is easier said than done.

Germina Ssemogerere

The colleague (Patrick Asea) who was scheduled to make this presentation works with the Economic Policy Research Center which deals with the day-to-day policy decisions faced by the government. It is quite different from the problems addressed by my institution which is the Institute of Economics at Makerere University. My comments here will focus on the situation that I am more familiar with and cannot perfectly substitute for the presentation Patrick might have made.

The Institute of Economics has begun a masters program which has not yet graduated its first class, but our aim is to train policy managers rather than policy analysts. Our students are people who will be going back to work in the ministries and agencies who are charged with implementing policy. These students will also have internships in institutions other than their own agency. This program seems to be filling a serious gap in existing training but it is too early to report on it efficacy.

We also have an older program that deals with policy analysis. This is a masters degree program in policy analysis funded by UNDP/EU. Donor funding for this program has been exhausted but we have managed the transition by offering evening courses which are attended by professionals who are able to pay for the program.

Makerere has reached an important threshold in that we are now able to train our own teachers. This is important for our sustainability as an academic institution. We are able to turn out doctoral students who are able to staff our programs and help reduce the size of our classes. The other important achievement in this regard is our record of doctoral theses on relevant policy issues. For example, many students who are government staff bring research topics from their work and undertake research with direct application to it.

We have had important input from AERC in the strengthening of our department. First, they strengthened our curriculum by allowing us to participate in their curriculum workshops. These provided an opportunity for institute staff to review new literature and to update their syllabus with respect to that literature. In addition, Makerere students have been able to sign up for electives offered by AERC and to pick up courses that are not taught within the University. AERC has also helped in the screening of external examiners. This has helped us to achieve a higher standard.

In regard to ways in which we could further improve the output of our programs, the primary concern is funding. Certainly, cost recovery through fees is one important way forward. But, this does not solve the problem of how to fund thesis and dissertation research. Many students cannot afford to be without income during the time that they are undertaking their research and would benefit tremendously from access to grants. Even small amounts can go very far in improving a student's ability to get their research done before returning to the workplace.

Funding for publication of dissertations would also be a very cost effective way to increase the policy impact of research undertaken by masters and doctoral students. Otherwise, theses and dissertations are not widely circulated.

In conclusion, it is extremely useful for the donors and governments to have expanded capacity for policy analysis in local institutions. The outputs are useful and informative. Sustaining these advances will require long term funding and, while students and local institutions can make a contribution here, additional support will be needed.

Dominique Njinkeu

The educational and capacity building challenges that face Africa can be broken into six categories. First, is the need noted by previous speakers to increase the supply of economists. Without more local economists, capacity building in Africa will be very difficult. Secondly, we need to retain capacity in terms of keeping economists on the continent and in terms of keeping existing economic research institutions functioning. Thirdly we need to distinguish between long-term and short-term capacity building needs and we need to remain mindful of the long-term sustainability of institutions. Fourth, we need to increase the use of local economists for policy formulation in Africa. Fifth we need to focus on the institutional aspects of capacity building in developing effective research institutions. And, sixth, we need to consider partnerships that allow individual institutions to play to their strengths and which will permit benefits through specialization.

AERC has attempted to address these challenges by supporting capacity building for policy research and institution building in Sub-Saharan Africa. Secondly, AERC has supported the use of African economists in research and policy formulation. We have attempted to ensure that research is relevant to policy needs. These goals have been pursued in two ways. First by supporting policy research directly and, secondly, by supporting graduate education in economics in Africa.

Under the "learning by doing" approach to economic research supported by AERC, there are four major thematic areas. At this level we use university graduates to address key policy issues. We use a comparative research approach and results of thematic research are summarized and generalizations are pursued. Under non-thematic research, funding is available for issues that arise in the execution of research which was not foreseen under the existing thematic areas. Finally, we undertake collaborative research that brings together senior African researchers and international resource persons to work together on a topic which has been clearly identified. Following the research and analysis phase of these projects, we enter dialogue with policymakers to ensure that the impact of this research extends into the policymaking sphere.

As an example, AERC has undertaken several collaborative research activities on trade issues in Africa. The research stage of the first of these was finished in 1996. At that time we approached ECA who helped to bring together policymakers concerned for lengthy discussions on the implications of the research findings. Following that effort we undertook a study on Africa in the world trading system. That research was completed last year and we had a workshop with national WTO ministerial committees to discuss key challenges. Following that we have been working with ECA to help prepare African countries for participation in the next round of WTO negotiations to be held in Seattle.

On the training side, we have an academic training component that focuses on relevant economic policy issues. This component also focuses on extension and dissemination of research results. We also have distance learning programs for policy analysis in collaboration with the World Bank's Economic Training Institute.

We have strengthened ties with ECA and OAU and we intend to collaborate more with national training and policy institutes such as CREA in Dakar and EPRC in Kampala. We hope to develop progressively a strong economic policy analysis capacity on the continent.

Diery Seck

The emphasis of this presentation will be on institution building and policy formulation. It will be organized under four major points. The first of these focuses on the reasons for instituting SISERA. Donors had been supporting economic research and private training in economics for some time. But in the past few years, as governments have cut down on their support for these activities, donors have concentrated on support for research through support to individuals. That approach gave some positive results but institutions were neglected.

Without support from either governments or the donors, institutions have suffered a decline in their capacity. As a consequence of this decline, there was a reduced capability to deliver policy oriented research and to provide effective training in economic analysis. Because of this, research centers lost some of their ability to affect policy development in Africa. They also became isolated from their constituencies and from the rest of the world.

In order for African researchers to have an impact on policy development, there has to be a core of quality economists both within governments and in the private sector. We therefore need to capture synergies from economic training and research on policy issues. This is why SISERA was created. That is, to provide support for economic research institutions in Africa by providing both financial and technical assistance.

The strategy that SISERA adapted started from the premise that help was needed in structuring research institutions in a business like manner so that they could sustain themselves over time. Toward this end, technical support has been provided to benefitting research institutions. A selective strategy was adopted wherein nine partner institutions were identified who could benefit from SISERA's support. It was also decided that emerging centers would be supported at a lower level in hopes that they could grow to become full partners in time.

The instruments for delivering support to partner institutions and emerging centers include: core grants for partners and seed grants for emerging centers, funding for collaborative research, funding for sabbatical programs, and connectivity funding to ensure that the centers form a network. Support is also provided for improving the managerial capability of these research centers.

We also have collaborative programs with other donors including the World Bank Training Institute, AERC and ACBF. New ties are being developed with the African Development Bank.

The three major challenges facing SISERA are: creating centers of excellence in Africa, helping African institutions to gain market share in providing economic analysis services to governments in Africa, and creating long-term sustainability for research institutions in Africa.

Discussion from the Floor

Clive Gray asked for pamphlets or other written material describing the organizations represented on the panel. His substantive question regarded effective demand for policy research in Africa from African governments. His concern was that governments may not want to have critical analysis of policy issues. Without this demand, researchers may fail to undertake focused research. What progress has been made in creating demand from the public sector for policy research?

Mr. Kasonde The problem that arises when governments contract policy research is that they have very limited time in which to make their decisions. The time required for research institutions to undertake research and present their findings is simply not there. The approach that we have employed in Zambia is to have the economics department at the university on standby for short notice service. We need to find a way to find a middle ground between the policy decision-makers who need the answers right away and the researchers who seem to have all the time in the world.

Mr. Nyaika A problem is that research results are often produced in an academic format that is not as useful for policymakers. There is a need to recognize the needs of the policymaking audience for this research and to produce results in a format that is more useful to them.

Mr. Stryker Agrees with the point that policy research must be both thorough and timely. What is needed is a data bank so that policy researchers can quickly answer questions that might arise. When the data are already available, it is possible for researchers to harvest results more quickly.

Mr. Thiam Is support for academic research the proper role for the donors? If there is a lack of demand from the policymakers, does this have to do with the value of the output?

Mr. Teka Research for the sake of research is not useful. ASRIA has supported research and dissemination but has found that governments are not interested in this research. The fault is that policymakers already know what they want to do before they ask researchers to look at issues. Often researchers give warnings that are disregarded.

Mr. Semboja In many cases, when institutions cannot maintain their long term funding needs, researchers must turn to consulting. This work can undermine the objectivity of researchers because the client often has an approach in mind and it is up to the researcher to follow that approach. In respect to the need for timely research results, this can be dangerous if the study does not analyze all aspects of a problem. There is a need to find a common ground between quick research results, research results that keep the client happy, and research results that are thorough and enjoy peer review.

Cameroons Ministry of Economics and Finance Cameroon shares exactly the condition described for Zambia where the government has issues that need to be addressed and resolved very quickly. We have been successful in undertaking projects that satisfy government needs in this respect by linking our university researchers together with private sector researchers. At the private sector level we have managerial concepts in our review of a new finance law and we are able to maintain our work on this law as it makes it way through the legislative body.

Ms. Ita In Botswana policy making is undertaken during a Plan Period. This plan defines the path that the government wants to follow. Research agendas fall out of this plan. Long term research must compliment the short term research that policymakers often demand. While the government staff is focused on the immediate term, they also will benefit from long term studies that provide behavioral expectations for models.

Responses of the Panel

Mr. Ng'ethe Effective demand for research is an important issue and has, from my experience, been rising in the recent past. In respect to economic research versus policy analysis, quick research turn around is hindered by data gaps. A data bank would help to solve this problem. Using new technology to create a virtual institute that would bring the African research community and expatriate Africans together is a tantalizing idea and should be pursued.

Ms. Ssemogerere In respect to the interest of policy makers in short term research, this poses problems for researchers doing medium term research. We find we must depend on international experts to get coefficients for elasticities or capital output ratios, etc. It is difficult to persuade policymakers that we should develop our own estimates for these parameters.

To create greater demand from local policymakers, we need to convince governments to put fiscal resources into this – perhaps through conditionalities. We should also undertake studies to assess the effectiveness of policies. Finally, in respect to data, we need to standardize data and store it in some central place which different researchers could then access. Those who fund research should do something to push this idea forward.

Mr. Njinkeu It is true that we should have a data base available to researchers and this should be standardized so that different researchers can use it. Our experience has shown that research can be done quickly when the data are available. There are differences between Anglophone Africa and the Francophone countries concerning the demand for economic analysis. Demand is increasing faster in some countries than others. We must also find ways to replicate success in boosting demand for economic analysis.

Mr. Diagne At the moment, in Senegal, we have been working on education issues. From our experience, our results have been utilized very quickly. We achieved this by developing greater credibility for CREA. Our work is disseminated in the press and, following a transition period where we developed our credibility, we have been very successful in extending our research impact. The donors have played an important role here by asking that national expertise be used in policy analysis.

CREA is endowed with the best data base in Senegal which we have assembled over time. We can say with confidence that if we do not have data to answer particular questions, then it does not exist. Having a resource such as this and utilizing it effectively is one way to build up demand for policy analysis by local institutions.

Mr. Seck We at SISERA recently ran a quick survey of partner institutions and emerging centers and found that nine out of eleven institutions were working with their national governments. The only two centers that were not working with their governments were from Francophone countries. We discussed the importance of working with national policy makers. Most of those institutions who were working with their national governments have been doing so for only the past five years. We can see that this is a relatively novel approach. Now the centers understand the importance of undertaking research with practical application.

Regarding information available on SISERA, we have not yet opened our web site but will be doing so soon. We can provide electronic information to anyone who requests such information and provides coordinates where we can send this information.

X. Plenary Panel: Africa in the Third Millennium

Chair: **Mme. Cissouma Aida Koné, Ministry of Industry, Trade and Handicrafts, Mali**
Rapporteur: **Germina Ssemogerere, Makerere University, Uganda**
Panelists: **Frank Ofei, ECOWAS, Nigeria**

James Mtonga, Ministry of Finance, Zambia
Claude Andreas, SAVA, Madagascar
Joseph Abbey, CEPA, Ghana

Frank Ofei

Mr. Ofei offered an African Economic Vision for the new millennium. Under this vision, each country should strive to have a well-developed economy that is resilient to shocks and that gives a high standard of living to each citizen. In pursuing this objective, countries should adopt regional integration as a central tool. While each country must pursue their own development policies, these should be pursued within a regional integration framework. We should build on existing regional integration agreements to expand and consolidate this integration strategy.

Regional integration should seek to expand markets by removing tariff barriers and by allowing the free movement of capital and labor. But, in addition, we should seek to expand our concept of integration to include product integration, wherein regional markets can be used as a learning ground on our way to producing for the wider global market. We should integrate and harmonize our power, transport and communications in order to realize benefits of scale and efficiency. And, finally, we should harmonize fiscal and monetary policies.

The private sector is an important stakeholder in this process and they should be made a part of the creation of regional integration agreements. Governments must be willing to surrender some of their sovereignty to make this work. They must also make the necessary institutional arrangements and fund those institutions to consolidate and further the gains of regional integration.

Regional integration can help Africa to more efficiently tackle environmental and resource conservation problems. It can also remove some of the economic costs of nationalistic food security policies.

Regional integration also has a civil society dimension. Stakeholders must be informed of the objectives and strategies of regional integration and they must be part of the process. Broad support is needed if the integration strategy is to be ours and not imposed from outside Africa.

One of the biggest stumbling blocks for regional integration in the past have been imbalances in both the size and the level of development of different economies within a single region. This problem must be addressed if we are to move forward. We must develop strategies for compensating losers in the regional integration process. We must find ways to ensure that investment funds will also flow to backward regions in this process.

This will require further research, including research into forward-looking strategies and research for informing the policy process. We should use development assistance to pursue this research and policy development.

Harris Mule

Mr. Mule focused on the theme of *growth through trade*. While noting that trade is an important element of development policy, his presentation focused on the ultimate objective of economic growth, which is human development. Parallel to Africa's poor trade performance, there have been declines in many human welfare indicators over the past twenty years.

Development policy in the next millennium must strive to arrest this decline in human development indicators in Africa, particularly with respect to

- life expectancy at birth
- school enrollment
- food security
- clean water supply
- shelter, and
- health.

To reverse this downward trend in human development indicators, African countries must do four things.

1. improve their prospects for agricultural production growth through increased research and extension,
2. make greater investments in clean water supply,
3. make greater and more appropriate investments in health care with particular regard to preventive and public health, and
4. improve the quality and accessibility of education.

Achieving these goals should be practical because they can be pursued with local resources and do not require large, hard currency investments. Indeed, some very poor countries (Sri Lanka, China) have achieved considerable success in improving the human development indicators of their citizens. Those countries now enjoy a competitive edge in the global economy, in part because of their educated and more healthy citizenry.

Claude Andreas

Mr. Andreas stressed the importance of the private sector for generating economic growth in Africa in the new millennium. Competitiveness of private enterprises at the international level must be improved through higher productivity, particularly of labor. The private sector will be the source for employment growth and growth in productivity will help enterprises to employ more people at a better wage. This is the best way to attack Africa's widespread poverty.

Among the biggest constraints to private sector growth in Africa is a lack of adequate infrastructure and undependable power supply. Industrial development cannot proceed without an adequate transport and communications infrastructure. In regard to power supply, many countries are currently privatizing their utilities and, in the short-term, things seem to be getting worse. In many instances, needed investments are not being made.

Another barrier to increased private sector growth is the lack of access to finance. Medium and long term development finance are particularly a problem. Ways must be found to improve financial flows both domestically, within countries, and in terms of international investment.

Lack of access to markets is an additional problem. Regional markets should be the initial focus for enterprises seeking to expand their markets. This will allow firms to learn to compete in wider international markets. However, access to markets requires a conducive political environment.

The private sector should be encouraged to tackle some of its own problems in regard to its performance. I might benefit from more collaboration in areas such as:

- representation and lobbying within international and regional fora,
- mobilizing resources for collective objectives,
- strengthening management capabilities.

Joseph Abbey

Mr. Abbey addressed governance concerns for Africa in the next millennium.

Africa needs governments that are capable of owning and discharging the development process in a cost-effective and accountable manner. We need governments that can conduct meaningful dialogue with the international community, and not just be recipients of aid on terms worked out by someone else. This will require new capacity.

African governments must develop the capacity to create and maintain a level playing field for the private sector. They must encourage competitive ideas and engender a framework for coming to a consensus on development policy. They must keep pace with developments in the world trading community (WTO), and with globalization more generally. They must find ways to attract foreign investment and to develop local enterprises. Ways of creating mutually constructive relationships between local firms and multinational enterprises need to be found.

African governments must invest in the creation of necessary skills in both the public and the private sector. They must be skills that are relevant to the job at hand. For the private sector this implies skills for delivering the goods and services that the market demands. Such skills must generate a capacity for local innovation and for adopting good practices from elsewhere.

In order to get the government we need, Africans must recognize the role of civil society in generating good governance. The processes by which governments acquire and retain power consumes a lot of resources. It is the role of civil society to hold governments accountable for those resources. Furthermore, governments often promise things which they cannot deliver. Civil society provides a means to check this. Civil society does not impose solutions but rather provides a framework within which people can come to a consensus about development policies.

Therefore, Africans should nurture civil societies that have the capacity to:

- to assess development policies,
- to reject irrelevant or inappropriate projects that will only increase debt, without generating new resources to pay it off,
- to ensure a consensus within the country on development priorities,
- and to hold governments accountable for their performance.

Discussion from the Floor

1. The first point from the floor emphasized governance. Since this was a conference of economists, there was a danger that the importance of politics, leadership and accountability would be understated. Yet, the issue of governance and how to motivate good governance is perhaps the most important issue facing African countries now. We must encourage change from within Africa governments that act on informed judgements. We should accept that a state with a leadership who has a vision and a strategy is essential (Japan is referenced). We must ask ourselves how to change the attitude of leadership in each of our countries.

2. The second contribution from the floor questioned why so many good policies are discussed but not implemented. The typical scenario is for the head of state to give a directive which then is incompletely implemented. This incomplete implementation can have one of several causes. There is insufficient support or there is a lack of human capacity for implementation or the beneficiaries of the policy differ from the government in their sense of what needs to be done.

3. The third contribution focused on the importance of the agriculture sector for African development. This is true with regard to food security, employment and foreign exchange earnings. Yet, during the deliberations at this conference from regional integration to trade, agriculture has been neglected. Africa produces a range of primary commodities with little value added. In most countries, we do not produce enough even to feed ourselves. In future research, we should pay attention to means for transforming agriculture.

4. The fourth point noted that Africa is not a single country and that one policy prescription cannot be applied across all African countries. We should therefore avoid offering a single solution for African problems.

5. The fifth point from the floor addressed the importance of information technology and the fact that this important industry had not been discussed in any significant way at the conference. Information technology gives an important example of how technology change can be more important to economic growth than economic policies.

6. The final point raised from the floor addressed the importance of entrepreneurship. It is the entrepreneur who mobilizes resources and combines available skills to create value and thereby get the development process moving forward. This conference has not sufficiently addressed the centrality of the entrepreneur to the development process or how to encourage more African entrepreneurship.

Reponses of the Panel

Claude Andreas concurred with the point about the importance of agriculture but noted that regardless of the sector of focus, competitiveness is still an important issue. While most African countries are potential suppliers of agricultural commodities, they still need to be price competitive in order to expand trade in these products. If the infrastructure and, particularly, the transport and energy infrastructures are not there, then the output of agricultural producers cannot be competitively traded.

James Mtonga agreed with the sentiment expressed regarding implementation of policies. He noted the haphazard way in which directives are implemented in many African countries and the importance of changing this process. Without improved accountability within governments, however, there is little reason to expect that this process will improve.

Frank Ofei agreed with the point raised concerning the centrality of entrepreneurship in the development process. Success will be driven by the performance of the private sector and policies that support the private sector also supports entrepreneurship. He rejected the idea that anyone on the panel believed that one size fits all in regard to economic development policies, but he noted that some similar problems do have similar solutions.

Joseph Abbey also noted the heterogeneity of African problems and solutions, but he noted that common African problems do deserve a broad focus across countries. An example of this is the importance of agriculture. Africans have not yet found a way to capitalize on their potential in agriculture and this issue deserves a focus across the continent.

The chair concluded the session by noting the important function served by the conference. That is, creating a framework to identify and deepen relationships on the African continent. There are examples wherein democracy and good governance are taking roots in Africa. Let us nurture those and, in the meantime, keep our fingers crossed.

XI. Closing Session

Concluding Speech by Mr. Mogolori Modisi, BOCCIM, Botswana

I would like to thank the organizers of this conference for inviting the Botswana Confederation of Commerce Industry and Manpower (BOCCIM) to participate in its deliberations. BOCCIM is an association of employers. Its main objectives are, among others, to promote and accelerate private sector investment and development in urban and rural areas through research, advice and dialogue with the government at policy level.

BOCCIM has brought about dialogue with government on biennial conferences which started in 1988. At first, these conferences were called the Private Sector Conference until last year, when they assumed a different name of the National Conference. This was done in recognition of the fact that the issues which were discussed at these conferences were more of national importance than the fact that they were only concerns expressed by the private sector. The themes of the conferences were as follows:

- Strategies for Private Sector Development,
- The Private Sector s the Engine of Growth in Botswana-Key Constraints and Their Removal,
- Botswana Developing a Competitive Strategy,
- Employment Creation, and
- Globalization and International Competitiveness

From these themes of our National Conferences and those discussed in this conference, I see a convergence of thought about the important issues that we must tackle as a continent.

I am able to recognize the value of the role of leadership in managing public sector reforms which our government has sustained since 1979. These reforms were introduced on a piecemeal basis depending on the nature of the problem and constraints that were encountered. Our government leaders provided for such reforms as and when they were required to do so. Reforms are a significant expense. The important aspects of these reforms were that they were not all initiated by the leadership. Most of the reforms were the initiative of the bureaucracy but which gained the support of the government underscoring the value of meritorious mutual support in the structures of a country.

I take note with appreciation the point made on the significance of the ability to change leadership smoothly. From the good examples cited of Mauritius and Botswana in this respect, I wish to comment that a rejuvenated leadership is able to drive development programs with much renewed vigor. In the event of elections in which passions are raised. These are injected into decisiveness and the resolution of getting things done. Mark your elections are also expensive.

We have in the past year looked at investment, credit and savings mobilization in the country. As a result, two new schemes have been introduced to provide credit to SMMEs and encourage savings with an assured return of 10% on small deposits. The first scheme for SMMEs has replaced earlier schemes which failed.

On public sector savings and debt reduction we have noted recommendations on incentives for taxpayers to increase compliance and for authorities to improve enforcement of tax laws. The Gaborone City' Council has employed a private sector firm to value properties whose report is being implemented in an effort to collect revenues from rates. Earlier in the year there was a mad scramble by many companies to comply with tax returns in order to take advantage of the moratorium that government declared on defaulters. These two recommendations made the report on public sector savings and debt reduction have had a significant effect which was felt.

Employment creation and poverty alleviation are two major objectives of the National Development Plan VIII (NDP8) in our country. In spite of accelerated economic growth, the trickle down effect alone, has not been able to absorb the unemployed now estimated at 21%. The observation that demand for labor is influenced by capacity utilization in firms can only mean that market access for goods and services should be canvassed to generate aggregate demand. We fully support this recommendation in your report.

The opportunities offered by the regional groupings in West and Southern Africa in the reduction of impediments in cross-border trade should be made to mean that new markets for our products will be established. Additionally, the prospect of processing further our raw materials in our countries for export and vice-versa to our neighboring countries will provide increased employment. I am looking forward to days such as this one, in which I will be making deals with Africans from neighboring countries in which we will be taking advantage of the comparative advantages of our respective countries. I say so, because this morning I launched a Commercial Radio Station with partners from South Africa. This partnership brings together skills for development provided foreign direct investment and created employment in my country.

Botswana established the Productivity Center in 1993 and WITS in the public sector, both of which are modeled along the productivity movement of Singapore. Both the above focus on public sector productivity improvement. In time, the Productivity Center will have to turn its full attention to the private sector where it can be more effective. The observation in the report that there is a need to better understand private sector perspective by our governments is of valued significance. The traditional mind-set that the private sector consists more or less of "Crooks out to cheat to make a fast buck at the expense of consumers" might be continuing to impair progress in providing the necessary infrastructure, institutional support and funding for research and development. We are working successfully towards a paradigm shift in this regard.

Just when most African countries need strong organizations with coherent rules of the game to help repair years of economic decline, capacities are being undercut by losses, due to HIV/AIDS. How can loss of discipline and opportunism in the face of individual tragedy, skill depletion, declining morale, and rising inefficiency be addressed thoughtfully, compassionately, and effectively?

The above quotation is very relevant to our country which has to respond to the projected infection rate of HIV/AIDS pandemic of 259,000 in 1999. This rate of projected infection is higher than the 242,000 current total workforce by 17,000 people.

AIDS is clearly a tragedy in individual families first. The question asked in the report that how can governments which cannot deal with the organizational dysfunction within their societies caused by Aids, deal with it when they are barely functional should be kept alive. Much more should be done to influence the individual to make the right choices in sexual behavior. The effects of AIDS on the productive sector is that it will slow it down much more, leading to untold suffering and abject poverty.

I would like to take this opportunity to thank the organizers of the conference for having found our country befitting the role of a host. I can only hope that many of you will have time to travel outside Gaborone so that you may appreciate our opportunities and threats much better.

It is now my honor and privilege to declare this conference closed.

I thank you for listening to me. May God bless you all.

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ANNEX II: Monday Research Reports

Introduction

Monday, October 18, a preliminary session of the EAGER All-Africa Conference was held for researchers, stakeholders and representatives from many African governments. The purpose of the session was to allow researchers to present and discuss EAGER research that had advanced since the last EAGER Conference[1]. In the day's activities, two plenary sessions provided fora for two overarching themes in EAGER research, namely, *Restarting growth and development in Africa*, and *International competitiveness and barriers to business growth*. Research that directly addressed either of these two themes was reported during their respective plenary sessions. Other research activities were reported in breakout sessions following each of the two plenaries.
This report summarizes presentations made during both the plenary and breakout sessions. Where available, presenters' speaking points, abstract, or executive summary is reported in full. Important points made following each presentation is then be reported (where available) from the rapporteur's notes.

I. Opening Session and Plenary Presentation of Restarting and Sustaining Growth and Development in Africa

Chair:	**Mabousso Thiam (ACE, Senegal)**
Comments:	**Dirck Stryker, EAGER/Trade Chief of Party, AIRD**
	Clive Gray, EAGER/PSGE Chief of Party, HIID
Presenters:	**Aidan Eyakuze (MA Consulting Group, Kenya)**
	Abdoulaye Diagne (CREA, Senegal)
	Waswa Balunywa (MISR, Uganda)
	Joseph Abbey (CEPA, Ghana)
	Servacious Likwelile (REPOA, Tanzania)
	Malcolm McPherson (HIID, USA)
Rapporteur:	**Charles Jebuni (CEPA, Ghana)**

Following a welcome by Mabousso Thiam and opening comments by Dirck Stryker and Clive Gray, the session provided an opportunity for EAGER researchers who have been working on the "Restarting and Sustaining Growth and Development in Africa" research theme to update participants on their research. The first presentation was made by Aidan Eyakuze.

#1 Aidan Eyakuze, The Productivity and Competitiveness of Kenya's Economy: A review of selected literature.

Productivity describes the static level and dynamic rate of change in a nation's output per worker, or output per unit of a composite input combining labor, capital and intermediate inputs (Hall and

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[1] Dakar Senegal, November 4th - 6th, 1998

Jones, 1996). Porter (1998) also suggests that the productivity of a nation's economy is linked directly to that of its firms by asserting that unless companies become more productive, an economy cannot become more productive.

Firm-level productivity rests on two interrelated areas: the sophistication of company operations and strategy, and the quality of the microeconomic business environment (suppliers, human resources, marketing channels, customer sophistication). In addition, a sound legal and political structure and macroeconomic policies create the potential for a productivity increase. Harberger (1998) examines the growth residual (Solow's residual) which represents technical change, or total factor productivity (TFP) improvement that is the source of productivity growth. He recasts technical change as real cost reduction (RCR) to give the residual an address (the firm), and a face (the entrepreneur, the CEO, the production manager, etc.). He agrees with Porter in suggesting that, because three of the five key elements of growth (rate of investment, rate of return, and real cost reduction) are also the critical elements in decision-making at the firm level, “one cannot escape the conclusion that the great bulk of the action associated with the growth process takes place at the level of the firm”.

While the concept of competitiveness is quite well understood at the firm level, it has been controversial when applied to national economies. Competitiveness has been defined variously as, “the ability of a country to realize central economic goals, especially growth in income and employment without running into balance of payments difficulties” (Fagerberg 1988) and “the degree to which [a nation] can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously expanding the real incomes of its citizens” (Castells 1996). Competitiveness “depends on the capacity of [a nation's] industry to innovate and upgrade” (Porter 1990). The World Competitiveness Report (1994) suggests that competitiveness derives from the combination of a country's assets, either inherited (e.g., natural resources) or created (e.g., infrastructure, human capital) and the processes (e.g., manufacturing) that transform them into economic results that meet with the test of the international market.

The importance of competitiveness for a nation's economic health and standard of living has been vigorously debated. In at least one article, Krugman (1994) argued that the concern with competitiveness was misplaced essentially because countries were not in competition with each other in the same way as firms. This view has been disputed by, among others, Prestowitz, Thurow and Cohen (1994).

The literature also reveals an interesting tension between comparative and competitive advantage in explaining the economic performance of nations. Under the theory of comparative advantage, 'the success of nations in particular industries is based on so-called factors of production such as land, labor and natural resources (Porter 1990). In this view, a country is tied to what it has, not to what it can create. In contrast, competitive advantage is based on the ability of the people of a country to add value to the available resources (Doryan 1993). The two views result in radically different implications for economic policy as Collier (1998) suggests in his analysis of the implications of globalization for Africa. He proposes a transaction cost argument to explain Africa's low level of manufactured exports relative to natural resource exports, as an alternative to Woods' (1997) natural-resource-endowment thesis.

> 'On Woods' thesis, Africa can forget about manufactures. There is nothing to be done. On the transactions costs thesis, there is everything to be done. Policymakers can, by reducing transactions costs to world levels, make Africa into the most competitive region in the world for labor-intensive manufactures because of Africa's low and relatively declining real incomes.

The economic success of natural resource poor countries such as Japan, Hong Kong and Singapore and the prevailing context of an increasingly knowledge-based, globalizing economy, tilts the argument in favor of a created competitive advantage.

The Productivity and Competitiveness of Kenya's Economy

Four studies of Kenya's productivity and competitiveness are reviewed. Gerdin (1997) offers a comprehensive historical analysis of Kenya's productivity. Siggel (1997) examines the competitiveness of Kenya's manufacturing sector in 1984, which is broadly supported by more recent analysis by Kimuyu (1998). Ndung'u and Mwega (1998) look at the impact of exchange rates on Kenya's manufactured exports.

Gerdin (1997) focuses on the determinants of growth following the neoclassical growth accounting tradition originated by Solow (1957) in which total factor productivity (TFP) growth is measured as a residual. Productivity growth is measured at the sectoral level based on sectoral production functions in the 1964-94 period, an approach that allows for an investigation of whether the observed behavior is common across all sectors or whether it is sector-specific. The sectors analyzed were agriculture, mining, manufactures, wholesale and transport. Output growth in the five sectors was allocated between growth in inputs and change in productivity. Average annual growth rates in overall output were 3.98% between 1964 and 1994, declining from 6.05 % in the first decade to 2.12% in the 1984-94 period. Annual productivity growth rates increased over time from 0.19% in 1964-73 to 0.47% in 1984-94. Productivity growth gave on a small boost to output growth of 0.37% each year.

Overall results show productivity growth to have been the least significant source of output growth in Kenya. It accounted for about 9.30% of overall output growth compared with labor's 10.05%, capital's 30.65% and intermediate inputs' contribution of 50.25%. The analysis estimated a mean rate of technical change (technological upgrading and innovation) of -0.18% and a mean total factor productivity (TFP) growth rate of -0.12%. This study suggests that over a period of 30 years, Kenya's aggregate productivity growth and rate of technological advancement seem to have been almost negligible.

Siggel (1998) used data of 78 Kenyan firms in 24 industries from 1984 to learn about the competitiveness of Kenya's manufacturers in the mid-i 980s. The analysis found that unit costs at shadow prices exceeded international prices by 15%. This suggests that Kenya had no comparative advantage in manufacturing in 1984. Unit costs at market prices also exceeded international prices by 10% 50 that Kenya's manufacturing sector as a whole also lacked a competitive advantage during that year.

Lundvall et al. (forthcoming) undertake a detailed analysis of productivity and technical efficiency in four manufacturing sectors (textile, wood, food and metal) based on data from a three-year *(1993-95)* survey of 266 firms (interviewed at least once) as part of the World Bank supported Regional Program on Enterprise Development (RPED) exercise. Productivity was defined as the ratio of output to inputs, and technical efficiency as the ratio of actual output to the maximum output feasible, given inputs.

The inter-firm (within the same sectors) comparison of technical efficiency showed a strongly positive size-efficiency relationship up to and including firms with *75-149* workers. Efficiency declines for firms larger than this. Informal firms are less efficient than formal firms due to their small size and very low capital-labor ratio. Comparison across industry sectors was interpreted as productivity differences, rather than differences in technical efficiency. The results showed the food sector to be between 40% and 120% more productive than the wood and textile sectors. The metal sector was between 20% and *85%* more productive than the wood and textile sectors. The most significant determinants of productivity for the food and metal sectors were investment, the quality of the firm's human capital and access to credit.

Their analysis of Kenya's manufacturing firms showed export participation increasing from 26% to 36% of surveyed firms. The share of total production exported also increased from 24% to 28% with the metal and textile sectors doubling their mean export share. Technical efficiency was higher for exporters (compared with non exporters) in all sectors except textiles, but was statistically significant only for the food and wood sectors. Exporting firms were almost six times larger (using output volume as a proxy for size) than non exporters and generally have higher capital and labor productivity and capital-labor ratios. Both the probability of exporting and the proportion of output exported was strongly influenced by labor. Kimuyu's (1998) analysis confirms that labor intensive activities are not only more likely to export but also export a greater share of their production than other enterprises. This probably suggests that Kenya's comparative advantages presently lie in labor intensive manufacturing activities.' These conclusions echo Siggel's findings, using earlier data, on Kenya's apparent comparative advantage in labor-intensive manufactured goods.

Horticulture: Kenya's Most Competitive Sector

While the productivity growth of Kenya's economy as a whole has been shown to have been stagnating for three decades, and competitiveness seems to elude the manufacturing sector, the performance of horticultural exports has been encouraging and revealing of a success story in international competitiveness.

Over the past two decades, the horticultural export sub-sector has developed into an important component of the Kenyan economy, providing a major source of foreign exchange earnings and substantial employment and farm income opportunities. During this period when Kenya's exports of many traditional commodities either declined (sisal, meat, pyrethrum) or fluctuated greatly from year-to-year (coffee, tea), the aggregate volume and value of horticultural exports increased substantially and virtually continuously, mounting into double-digit rates most years. Horticultural exports more than doubled in volume and increased by more than 24 times in shilling value terms between 1984 and 1998.

The expansion of Kenya's fresh produce trade has been accompanied by, and is in many ways dependent on, the entry of many new participants, especially at the production level. For vegetables, this expanded production came in response to a rapid increase in foreign demand during the 1970s and was stimulated by competitive pressures within Kenya, which led exporters to extend and diversify their sources of supply.

The production and trade of cut flowers have been one of the most dynamic components of Kenyan agriculture over the past two decades. This industry has experienced several new medium-to-large-scale investments, a secondary yet substantial growth in smallholder production, and a considerable diversification in the mix of crops produced and marketed. Since 1973, participation in Kenya's horticultural export sub-sector has broadened considerably, with growing numbers of smallholder and other producers providing commodities and raw materials and with increased entry into trade, especially for fresh produce exports.

Lessons from Horticulture's Success

Except for South Africa, Kenya has developed the most diversified and successful horticultural export trade within sub-Saharan Africa. For African countries and entrepreneurs seeking to replicate aspects of Kenya's horticultural development experience, three lessons can be drawn from that experience. First, while many African countries share with Kenya some ecological, location and labor cost advantages in the production of certain horticultural crops, few such countries are well endowed with the additional technical, financial, infrastructure and managerial assets that are critical for developing a competitive horticultural trade. Without foreign investment or a considerable initial investment by government and the local private sector in horticultural research, training and marketing infrastructure, the development of horticultural exports will be a very slow process in Africa with a high incidence of failure among individual firms.

Second, and relatedly, the development of African trade in many horticultural commodities will require the attraction of foreign investment or at least the development of long-term technical and marketing contracts between domestic and foreign firms. This may be especially important in commodity lines requiring highly specialized knowledge and inputs, featuring rapid technical and market changes, and featuring highly concentrated international markets. Governments need to improve **the incentives for foreign investment and the legal and informational basis for the development of complex contractual relations between local and foreign companies.**

Third, 'learning-by-doing' may no longer be a viable means of developing a horticultural export trade considering the intensification of competition in European and other markets and the increased requirements for quality, supply continuity, and product variety in these markets. Prospective exporters would be advised to gain experience first in the domestic market, perhaps by developing crop procurement and distribution arrangements to supply high-quality produce to restaurants, hotels and up-market retail outlets. In encouraging new entry into horticultural exports, attention should focus on private firms and

cooperatives currently active in domestic fresh produce wholesaling, large individual growers, and firms or individuals that currently carry out exports of other agricultural or manufactured products and thus have market contacts and an understanding of the risks and mechanics of international trade.

While Kenya's institutional framework and macroeconomic climate will remain critical, improving the productivity and competitiveness of Kenya's industrial sector also depends on enterprises learning from the experience of the horticultural exporters and applying the lessons to their activities in the domestic and international marketplace.

#2 Abdoulaye Diagne [Not Available]

#3 Joseph Abbey [Not Available]

#4 Joseph Semboja, Amon Chaligha, Godwin Mjema, Joseph Shitundu, and Servacius Likwelile, <u>Restarting and Sustaining Growth and Development in Tanzania</u>

This study reviews the economic performance of the Tanzanian economy during 1986-1997. It also reviews the reform measures undertaken during the same period. Specifically, the study analyzes trends in the main macroeconomic indicators including real GDP growth, agricultural and manufacturing growth, fiscal and monetary performance, trade sector and savings and investment. The reform measures, that were the basis of the macroeconomic performance, were of two types: those aiming at changing the rules and regulations and those that addressed institutional and organizational issues. The latter were aimed at supporting the former.

In reviewing the economic performance it was essential to consider economic performance of the Tanzanian economy prior to reforms. While economic performance during the 1960s and the early 1970s was generally satisfactory, a series of internal and external factors combined to reverse the trend during the late 1970s to mid 1980s. Internally, policy mistakes including over-valuation of the exchange rate, internal and external trade controls, inward looking industrialization strategy and excessive money supply resulted into, among other things, inflationary trends, artificial shortages of consumer goods and industrial inputs, and balance of payments and budget deficits. Tanzania also experienced external shocks including drought, war, the collapse of the East African Community and oil price hikes. This set of factors, i.e., both internal and external, resulted into an economic crisis unprecedented in the Tanzanian history.

By mid 1980s it was clear to Tanzanian authorities that something had to be done to contain the simmering crisis. Thus in 1986 the government agreed to implement an IMF-World Bank sponsored economic recovery program. As pointed out earlier, the implemented

reforms were those that aimed at changing the rules and regulation and later on the institutional and organizational reforms.

Reform measures aiming at changing rules and regulations included price and market reforms. These dismantled the price controls in internal trade and finally led to the liberalization of internal and external trade. Exchange rate reforms were implemented via a series of devaluations from 1986 to make the country's exchange rate competitive. By 1989, for example, the nominal exchange rate was four times its 1986 level. Official foreign exchange controls were abolished and the foreign exchange control ordinance was replaced by the 1992 foreign exchange act. Beginning in 1994, foreign exchange auctions were introduced to ensure efficiency and achievement of a more competitive, market-determined exchange rate. The government similarly introduced reforms in trade, industry and tax policy. Reforms such as: the own-funded import scheme, the open general license (OGL) facility, reduction of number and levels of tariff and tax rates and the creation of the Tanzania Revenue Authority to oversee efficient revenue collection were carried out. Other export incentives included the export retention scheme and the duty draw back scheme.

At a later stage of the reform process the government embarked upon the structural reforms such as financial sector reform that saw among other things the split of the National Bank of Commerce (NBC) into National Micro-Finance Bank (NMB) and the NBC United (1997). The privatization process of these two banks is underway. In the sphere of monetary policy the new Bank of Tanzania (BOT) Act of 1995 is more focused on targeting inflation. The government has, via the parastatal sector reform, privatized more than half the 400 plus parastatals. The process of privatizing the rest, especially the parastatals dealing with utilities, is underway. The Tanzania Investment Center (TIC) which has taken over from the National Investment Promotion and Protection Act (NIPPA) of 1990 has created more a conducive investment climate to attract both foreign and local investors. The Capital market trade is a recent phenomenon in Tanzania that started with the creation of the Dar es Salaam Stock Exchange (DSE) in 1998 for trade in stock. So far DSE has attracted only a few companies ready to accept and sell shares. In reforming the civil service the government has managed to downsize and rationalize its civil service. The process is ongoing.

These reform measures (changing the rules and regulation and structural reforms) have produced significant impacts on some macroeconomic variables. A competitive exchange rate is now in place, fiscal discipline has been introduced and the large budget deficits have been reduced and inflation has fallen.

Performance in other areas of the economy has also improved. Real GDP growth has increased and now exceeds the population growth rate of 2.8% per annum. As a result the real per capita GDP has also improved. During the same period, sectoral real GDP growth for agricultural and industrial sectors has also improved. Export performance of non-traditional exports has picked up.

Foreign investors are increasingly taking advantage of the favorable investment climate created not only by the introduction of the NIPPA and TIC but also by the policy

statements from high-level government officials assuring them that investments will not be nationalized. Among the sectors that have benefitted from foreign investment are tourism and service sectors like hotels, minerals, banking and some few manufacturing firms.

For these investments to increase and have a bearing on Tanzania's Savings-Investment ratios or the Investment-Output ratio, there is need to address constraints such as poor infrastructure and the high costs and unreliable supply of power and water. Similarly there is need to deal with bureaucracy in investment registration and in tax management.

The role of the government is now directed toward assuring that no policy reversals on reforms occur, and ensuring that a conducive environment has been created both for foreign and domestic private investors. This will place Tanzania on the right footing toward sustained economic growth.

Efforts in the political arena include the movement toward political liberalization. This addresses the political dimension of good governance including issues of state responsiveness and accountability, and the impact of these factors on political stability and economic development. Also addressed are issues of transparency and the need for autonomous enforcement agencies. This line of the reforms recognizes that for political stability and economic sustainability, a strong and symbiotic relationship between economic and political reforms is necessary. Lack of democracy is bad for economic development.

Before the reforms Tanzania was a single party state under the tutelage of *Chama cha Mapinduzi* (CCM), the party ideology being Socialism and Self-reliance, which was enshrined in the country's constitution. This limited people's participation in political activities, including membership to civic organizations.

Governance reforms were set in motion in 1991 through the formation of the Nyalali Commission. The commission had the mandate to review the one party state and make recommendations. Political liberalization was ushered in and a multiparty system introduced. Since this time, civil society has been revitalized through among others, the formation of an independent labor movement. Measures to ensure the rule of law in Tanzania were also taken. To reinforce such measures and give credibility to them, the need to review the constitution has been advocated. The measures include Act No.20 of 1992 that gives Parliament power to impeach the president.

Concerns exist that the governance reform program has not managed to institutionalize accountability and transparency in the conduct of government business in Tanzania. Corruption is still rampant in most facets of life in Tanzania. In the health sector, there has been need to require health workers to wear special tags. Greed, personal interests and unnecessary delays discourage investors and the recent leakage of the national form exam results show that corruption is also a problem in the education sector. Lack of strong opposition parties that hold the government accountable is one factor that stymie the realization of good governance.

Introducing reform is one thing but to ensure sustainability is another. Ownership of the content and implementation of reforms was explored through interviews with government NGO officials. About 76.1% thought the donor community was the one who introduced reforms in Tanzania. Such officials believe that without donor pressure only a few changes would have been put in the policy agenda of the government. This suggests that reforms may still be on shaky grounds although circumstances of the day work to discount fears of any policy reversals.

Despite this most feel that reforms have generated positive results. Many officials concede that the performance of the economy has improved because of the reforms. About 79.4% of those interviewed thought the performance of the economy had increased, 17.2% thought it had remained the same and 3.4% thought it had decreased. As for the level of unemployment, 79.4% were of the opinion it had decreased, 10.3% thought it had increased and 10.3% thought it remained the same. Opinions are also favorable on the side of procedures including licensing, import/export, goods clearance, tax and local government. In all these categories more than 60% of those interviewed believed these procedures are much clearer now than before the reform measures.

#5 Malcolm McPherson and Tzvetana Rakovski [Not Available]

II. Morning Break Out Sessions

Session #1 Employment and Labor Productivity in Ghana and South Africa

Chair: **Ismail Adams (University of the Western Cape, South Africa)**
Rapporteur: **Lucie Phillips (IBI, USA)**
Presenters: **George Gyan-Baffour (Howard University, USA)**
Fuad Cassim (University of Witwatersrand, S.A.)
Balakanapathy Rajaratnam (University of Witwatersrand, S.A.)
Haroon Bhorat (University of Cape Town, S.A.)
J. Dirck Stryker, (AIRD, USA)

George Gyan-Baffour, <u>Employment and Labor Productivity in Ghana</u>

The purpose of this study is to propose policies aimed at enhancing labor demand and labor productivity in Ghana. Consequently, the study has three main objectives. The first objective is to identify the determinants of labor demand in Ghana. This includes measuring the substitution parameters between homogenous labor and capital, and indirectly estimating the own-wage elasticity of demand for labor as well the substitution parameters among heterogeneous labor inputs. The second objective is to assess the effects of some conceptually identified firm level factors and non firm level factors such as hiring and firing regulations on the demand for labor. The third objective is to model value-added per worker, a surrogate for labor productivity, as a function of firm level variables such as the capital stock, the real wages paid to workers, the type of ownership, and the age of machinery and equipment used by firms.

The study used a panel data from the manufacturing sector and a cross-sectional data from firms across all sectors of the economy. **The panel data covered the years 1983 to 1994/95. The cross sectional data were generated from a survey of approximately 100 firms undertaken in 1995/96.**

Results of the study revealed a considerable ease of substitutability between capital and labor in the industries studied. This suggests the possibility of firms replacing workers with machinery and thus reducing the demand for labor when the price of machinery becomes cheaper relative to wages either through subsidized cost of credit or overvalued currency. The study also found that demand for labor is negatively affected by changes in the wage rate. This suggests that demand for labor will increase when wages are flexible downward and vice-versa. The study concluded that skilled and unskilled workers are substitutes. A major implication of this finding is that the cost associated with the increase in the number of skilled workers triggered off by the increase in wages of unskilled workers tend to make firms less competitive unless the use of more skilled workers results in a rise in labor productivity. Another finding of the study is that firm's labor demand is largely influenced by how and who operates the firms. Foreign owned firms tend to hire more workers while firms with higher capacity use also employ more workers. Furthermore, the labor demand assessment concluded that capital-constraints, concern about firing laws, and labor costs are major factors reducing the likelihood that firms will hire more workers.

In the sectoral analysis, tradables showed most growth, but this was coming from a very low base. Over the long-term, growth in tradables is expected to outweigh losses in the non-tradables sector. The non-tradables sector has highest proportion of jobs, but employment there is declining.

Further (non-financial) market improvements such as better market information, might accelerate growth in the tradables sector. The easy substitution of capital for labor, is also something that needs to be addressed. For example, when the currency was overvalued, imported machinery was cheap and this led to large-scale investment in imported equipment, esp. in paper and printing industry. This situation is changing, however, as the current currency regime and structural adjustments make imported equipment less cheap.

Regarding policies:

- **<u>minimum wages</u> tend to raise wages, raise production costs, and reduce employment. Worse yet, it reduces employment of both unskilled and skilled labor—unless skilled labor raises labor productivity enough to offset the rise in production costs.**
- **<u>labor demand</u>: firms operating at near full capacity have higher employment. Foreign management scored well in this regard. This implies that encouraging foreign investment may pay high dividends.**
- **<u>labor legislation</u>: A review of current labor laws with specific attention to their impacts on hiring and firing workers is in order.**
- **<u>labor militancy</u>: firms facing militancy tend to hire less. More peaceful negotiating processes may be more successful**

- **investments in human capital: investment in human capital is critical for productivity increases, as is:**
- **technical capacity: efforts need to be taken to improve this through a long-term strategy.**

Comments from the floor

Bruce Bolnick. Tax incentives for investment tend to focus on capital imports. Did you look at impact of tax regimes on capital/labor choice and demand for labor? Also could one get current data on employment and wages for, e.g., July 1999 right now? How are wages related to labor efficiency and turnover?

A: We did not focus on tax issues and therefore did not specifically address the impact of tax regimes. "Taxes paid" was not among the questions in our survey. However, we did find a correlation along ownership and labor demand. Foreign firms are bigger, pay higher wages, and more efficient. The answer on data is, no. Manufacturing is a small sector, and the most recent data on unemployment is ca 1990.

Bob Young Did you have parastatal ownership in the sample? What about differences in industrial relations styles? How did management deal with workers and how did that affect productivity?

Jay Rosengard In the panel data, how did you deal with the informal sector—normally the biggest employer? Why did you recommend easing availability of credit for technology, when capital substitution for labor is a problem?

Dirck Stryker The use of panel data from 1973-84/85 is problematic. This was a period of substitution of capital for labor. Development banks were providing credit and the currency was overvalued. But also, during the monetary crisis period, foreign exchange was rationed. Why would anyone invest during this period? Until economic reform began in 1983?

A: It is true that, during this period the economy was in bad shape and this will have an impact on any analysis of data over this period. Binding constraints such as access to foreign exchange for imported equipment were widespread. But we found that for those who did have access to rationed FOREX, equipment purchases replacing labor paid off.

As for the informal sector, there is little data available. In particular, there is no employment data for that sector. However, in our study we attempted to develop rough estimates for these missing data.

As for the apparent contradiction between findings on capital labor takeoffs and recommendations about improved access to capital, this may be a problem of semantics. Capital should not be subsidized, but ways should be found to remove barriers to deepened finance for the manufacturing sector. Nevertheless, as far as that goes, labor productivity is increased by equipment.

Fuad Cassim, Balakanapathy Rajaratnam, Haroon Bhorat and J. Dirck Stryker, <u>Increasing the Demand for Labor in South Africa</u>

This research was reported in segments by the four team members, Stryker, Cassim, Bhorat and Rajaratnam.

Dirck Stryker, Overview

To complement its political liberation with economic gains that benefit the population equitably, South Africa must address distortions that limit employment creation and growth. Such factors include the determination of wage prices, a weak informal sector, capital-intensive techniques of primary and secondary production, inefficient management, collective bargaining characterized by militancy, and poor training, education, and work habits of the labor force. This project under EAGER/PSGE examines the nature of the South African labor market and discusses the most promising solutions.

Service is the most promising sector in South Africa, roughly doubling its output from 1970 to 1990 while the rest of the economy stagnated. In the 1990s, the trade, catering, and accommodation sector has been leading the recovery, with finance, business, and insurance services also expanding in an important way. The service sector appears to have a higher absorptive potential for low-skill labor than the economy average, the most important area from a policymaker's perspective.

The promotion of small, medium, and micro enterprises is considered as a key element in the government's strategy for employment creation and income generation. The research made use an input-output framework to gauge whether employment effects differ according to the size distribution of firms. While data limitations suggest caution in interpreting the results, small firms may be more employment intensive and to generate more GDP per job than large firms.

With an eye on what factors hinder firms from expanding employment, the study analyzes two South African Labor Flexibility Surveys (SALFS), conducted in 1995 and 1996, which monitor the demand side of labor and labor flexibility in manufacturing and other established firms. SALFS I found that large firms export more than smaller firms. In addition, nearly half the firms reported labor slack, and had indications of certain practices reinforcing segmentation and stratification. SALFS2 found, among other results, that there is a positive relationship between employment size and percentage of workers from historically disadvantaged population groups.

South Africa's new labor legislation strengthens and gives more power to the trade unions, moving against the global trend toward decentralized bargaining. Substantial variations exist in the nature of collective bargaining across industries, firms, and regions. The effect of the new rules on small businesses must be better explained, since small business is expected to generate new job opportunities. Ultimately, time will tell whether the new labor rules simplify job creation.

Haroon Bhorat, The SMME Sector

In this component of the study, they have found that SMMEs are more labor intensive than larger, formal sector firms. The average stimulus on employment, of final demand in the SMME sector is 125. It has long been believed that some advantage could be gained for the economy over all if the SMME sector grew at a faster pace and efforts have been made to achieve this. Unfortunately, TA has not been very effective in achieving accelerated growth in the sector.

Changing demand for different skills and skill levels

- **Increased wage differentials, because demand for highly skilled workers very high, less growth in demand for lower skilled and unskilled. This is a global trend—technology is evolving that requires more knowledgeable of its operators**

9. **SA incentive structure biased toward large, capital intensive, technologically advanced firms**
10. **Unemployment disproportionately black, female and rural.**

Recommendations

The government exerts more influence on employment through macroeconomic policies than through direct labor-market policies and, in public finance terms, the former costs less. The most effective way to stimulate demand is to accelerate growth. Lower interest rates is one way of aiding SMMEs, but this is tricky if banks cannot be convinced that they are bankable.

One would expect that employment could be stimulated by starting more flexible wage policies, but this is hard to do because of the historic political role of unions. Flexibility on labor conditions important for stimulating demand, but it is not clear how this outcome can be achieved.

In the service sector, however, fewer wage rigidities and services are likely to produce the most growth in labor demand. As for outward-orientation, SA may have to focus on high-end niche markets and on regional markets.

Fuad Cassim, Macroeconomic Factors

Macroeconomic reform has achieved some success, particularly on the fiscal front. Government has made some difficult decisions and can rightfully claim credit for this success. Still, on the labor market front there is less to cheer about. Employment is declining, largely due to rigidities in labor policies. Most problematic is that unionized firms pay wages above the market-clearing level. Wages do not fall, even with excess supplies of labor.

This had created an inside-outside problem where compensation has been raised for those within the labor force, increasing differentials between them and those outside the labor

market. This has become a sufficiently visible phenomenon that there is now some rethinking of this approach. Amendments to labor legislation are being proposed.

One has to distinguish between qualitative and quantitative impact. The historic trend of substitution of capital for labor is being accentuated rather than diminished in South Africa.

Bala Rajaratnam, Labor Demand

This segment of the labor demand study was undertaken in collaboration with Howard U over the last 18 months. The study looked at both aggregate and disaggregated labor demand. Aggregate labor demand growth was poor overall. The decomposed labor market showed stark differences between sectors, however. Professional/managerial/clerical jobs grew by 270% over the period studied. Unskilled labor, on the other hand, declined by 50% among farming operations.

In job growth sectoral differences exist. The decline in agriculture mirrors a decline in the primary sectors overall. Following global trends, growth is mainly in especially financial and business services.

There are also important racial differences in the labor market. Africans are declining in absolute terms in the labor force while colored, Asians and whites, have increased up to 70%. It is believed that this relates to the change in the skills mix in the labor market. As for whether structural or technological changes dominate these trends, the study found evidence that technological change was the more important of the two and that technology changes are currently favoring women over men in job opportunities.

***Policy implications*:**

Given labor demand trends, is there any improvement in sight? No, because some problems that have been generated are not amenable to solution by government policies. In particular, those who drop out of the labor market have become unemployable. For them, there is a need for a social safety net.

One sensible area of focus, however, should be on youth entering labor markets. In particular, human capital investment focused on current technological trends.

The wage employment elasticities of -0.7 are accepted, overall. In the services sector, this figure is 0.9, but this debate may be overstated. Where there are huge skill shortages—premiums are paid for skilled workers. Perhaps this is accounts for a disproportionate share of the wage bill.

Comments and Questions from the floor

Tom McEwan: Focus also on murder rate. How will surge in gold price affect mining?

Joshua Nyoni: What about effect of regional labor supply? Skilled workers are coming from SADC, and all over Africa.

Bob Young: Some have suggested that the Japanese model has potential for improving labor productivity?

Graham Glenday: There are strong parallels here with Kenyan labor markets. Export performance in Kenya may provide a cautionary tale. Labor intensive manufacturing was almost nonexistent in the export picture (clothing, footwear, light assembly (classic low-wage industrialization) in Kenya until it had wages decline by almost 50%. Then those industries appeared, but when that low cost labor disappeared, so did companies and exports. Large companies lead exports. The reason the Asian approach does not work here is that large firms cannot access cheap labor.

Answers from the panel

Fuad: We are not saying that service sector will solve the problem. Do not want to overplay. Macro economic stability necessary, but not sufficient. Agrees with Graham Glenday.

Haroon: The surge in the gold price has not generated an effect. Employment loss trend is over 25 years. As for labor relations, SA invests heavily in worker/management negotiations, but there are no studies of whether it pays off in productivity.

Bala: Regional labor immigration is an issue. It has generated resentment in South Africa, particularly regarding the Lesotho crisis due to mines unemployment.

Dirck: Recent growth in labor productivity in SA manufacturing has been due to the shock of competition from imports. Some firms went under, but survivors shed workers and became more efficient. Overall, the increase in output reflects labor productivity gains. Hopefully this transition is maturing, and gains in employment will follow in more efficient firms. Concerning labor migration, wage rates 2-3 times those in neighboring countries might be expected to attract immigrants. But SA is also competing with Bangladesh. Wage rates are high despite huge unemployment.

Session #2 Globalization and Multilateral Trade Agreements

Chair Frank Ofei (ECOWAS)
Rapporteur: Jeffrey Metzel (AIRD, USA)
Presenter: Daniel Plunkett (AIRD, USA)

The chair opened by noting a number of important issues that the current session should seek to answer:

- ***Can market forces be influenced by multilateral agreements?***
- ***Is Africa relegated to being a "taker" rather than a "maker" in these agreements?***
- ***Is it a "taker" in trade and in the exchange of technology?***
- ***In other words, can it influence trends in these areas or not?***
- ***Should there be an effort to come up with a new comprehensive development framework or should we be satisfied with the current structures?***
- ***Is Africa prepared for the Seattle meetings or not?***
- ***How is Africa coping with the current multilateral agreements?***
- ***Are African interests being heard in these negotiations or not?***

Daniel Plunkett: ***Implications for Africa of Initiatives by the WTO, European Union, and US***

A remarkable convergence of forces has led to the most comprehensive review of Africa's trading relations with the United States, the European Union, and other partners since the colonial era. For African countries in the vanguard, the next decade of international trade negotiations could result in substantial concessions, spurring trade and investment. Yet since African countries are ill-equipped to participate actively in the dozens of WTO interest areas, there is a real danger that some African countries will end worse than before. Success will depend on achieving a level of technical preparation and mobilization of national interest groups to a degree rarely seen before in Africa. Key challenges for African countries include widening their trade orientation beyond traditional bilateral flows and elaborating common positions within existing regional organizations.

The Third Ministerial Meetings of the World Trade Organization in Seattle at the end of 1999 launches a new round of negotiations in the key fields of agriculture and services, with nascent areas such as e-commerce perhaps even receiving a mandate for liberalization from the gathered ministers. As in the Uruguay Round, the upcoming WTO negotiations will aim to provide the framework in which new and innovative economic trends can thrive. Liberalization in emerging areas may give African entrepreneurs the opportunity to create the rapid economic growth deemed necessary to raise a substantial portion of the population out of poverty. Yet as the poorest aggregate region, Sub-Saharan Africa is most humanly affected by changes in the policies, technologies, and flows of food. The overarching priority is to ensure that a change in food policy among the wealthier members of the WTO does not negatively affect food security in Africa.

In the key agriculture sector, African countries must define their specific positions regarding the three existing areas of market access, domestic support, and export competition. These highly technical dossiers were the battlegrounds for the U.S. and the EU during the Uruguay Round. African negotiators would be wise to ask for something tangible in return for supporting one side or the other on further reform. A food-related issue for African countries involves the WTO deadline at the end of 1999 (2004 for least-developed countries) to adopt legislation, either through patents, or a *sui generis* system-providing protection for plant varieties. Many African countries are concerned about potential conflicts with the Convention on Biodiversity, and about "bio-piracy" by foreign firms

better positioned to take out patents on Africa's genetic resource base. On sanitary and phytosanitary (SPS) issues, African countries, which often have trouble adopting and enforcing standards legislation, would benefit from some form of special and differential treatment. The effects of price variability and insecurity of supply on least-developed and net food-importing countries are also part of the WTO remit.

Africa's new relationship with the European Union will include the effects of the EU's conversion to the euro, the negotiation of a post-Lome' trade regime, and ultimately, expanded EU membership. Full conversion to the euro in 2002 will most immediately affect the countries of UEMOA, as the CFA will be tied to the euro rather than the French franc, extending the exchange risk certainty that UEMOA has enjoyed for trade with France to the entire euro area. The current WTO waiver for Lome IV expires on February 29, 2000, placing the new WTO round and the resolution of ACP trading privileges on a collision course. African countries are left with a difficult choice: preserve the Lome trade concessions by accepting individual or regional free trade agreements offering reciprocal access, or fend off the dangers of reciprocity but be left with the less-favorable terms of GSP. With 6 Central and Eastern European countries seeking to join the EE, the necessary reforms of the EU's overly-generous Common Agricultural Policy may take several years to complete, holding up the fate of the WTO negotiations and the details of the Lome' transition.

For Africa, globalization means closer U.S. ties. There is the growing sense that U.S. relations with Africa are underdeveloped, but hold much promise. Through a series of regional and topical initiatives, the U.S. seeks to provide an improved enabling environment for equitable growth to occur. Fuller integration of the African members into the WTO will improve the reliability of the external trading framework, complementing African efforts at regional integration, which the U.S. strongly encourages, emphasizing transparency in practices and policies. Technical assistance, by the U.S. and others, is sorely needed to help the African countries to sort through the myriad changes underway in the global context and emerge in a stronger position.

In Africa, an important problem is that only the top people are aware of the issues. Moreover, there is very little economic research to brief decision makers on the impact of their negotiating positions. In general, Africa needs to do a lot to prepare.

Discussion from the floor

- **Will the Multi fiber agreement be incorporated into WTO and, if so, what will be the impact?**
- **Are EU requirements and regulations on pesticides consistent with fair trade? They may be applied for projectionist reasons. How will WTO deal with this?**
- **The paper seems too optimistic that Africa can effectively participate in WTO, but Africa is not ready. Africa is ill-equipped to negotiate and has nothing to sell. WTO sets common rules for people with little in common. Why is Africa being asked to**

play by the same rules as everyone else? Should there be clear criteria for membership? Should Africa participate at all?

- **The Africa Growth and Opportunities Act may be a big failure because it requires countries to be in full compliance with the IMF and few countries are.**
- **The presentation recognizes African limitations in participation in negotiations, so what is the solution? Phyto-sanitary restrictions are being used as non tariff barriers and Africa does not have the equipment nor resources to overcome these restrictions. Nor has it been consulted on setting the initial standards.**
- **What is the list of commodities to be affected by the Africa Growth and Opportunities Act ?**
- **What will be the effect of Africa Growth and Opportunities Act on the corporate taxes?**
- **Has any coherent position been elaborated for African countries on these issues?**
- **The European Union is calling for REPAS, while the ACP countries are against it. Is there a fall back position?**
- **In the post- Lome environment will there be a move to generalized multilateral systems of preferences. Is the REPAS system GATT compliant? Will it not divide African countries between the better and worse off, and if so will it not divide the African position?**
- **What impact will the "blue round" on labor and the "green round" on the environment have on Africa?**
- **What are domestic agendas for African countries? It seems there are too many technicalities to master them all, and therefore African countries must be selective.**
- **If the big organizations cannot articulate a position for Africa, then what is their role?**

Responses

The multi fiber agreement is part of WTO, but it has been backloaded such that when quotas finally go, it may not be good for Africa. The MFA and the Dairy and Beef commodity agreements allowed a la carte joining. Regulations regarding sanitary and phytosanitary (SPS) issues are a nation's sovereign prerogative. It requires restraint to avoid backlash. It requires creation of a third party dispute mechanism for addressing conflicts. SPS and state trading enterprises, and monopoly regulations will become more important as tariff measures come down.

The question of harmonizing free trade agreements and multilateral rules is only starting to be addressed and this could create havoc. The need to incorporate labor and environmental standards into WTO is being studied and ministers must give the mandate to start the negotiation process but this is not likely to happen at Seattle.

The question of the level of development for participation in multilateral negotiations suggests at least a need for a pause after the agenda is set in Seattle to allow countries time for analysis before negotiations begin. Africa needs to develop some common positions and hold together to have clout in the negotiations.

The Chair added the following summary points:

- **Africa has the opportunity to get involved in multilateral trade negotiations and is obligated to do so.**
- **There is a need for policy coherence based on specific development priorities with a long term perspective.**
- **There is a lack of African capacity to do this.**
- **African negotiators need to be better equipped with technical assistance and analysis to help Africa step up in the negotiations.**
- **There is a need to identify specific issues that should be focused on by Africans in the negotiations.**

III. Afternoon Plenary Session: International Competitiveness and Barriers to Business Expansion

Chair: **Tawia Akyea (Ghana Export Promotion Council)**
Rapporteur: **Abdoul Barry (AIRD, USA)**
Presenters: **Gerrishon Ikiara (University of Nairobi), Germina Ssemogerere (Makere University), and Eckhard Siggel (CREFA/Laval University)**
Paul Kwengwere (Action Aid, Malawi), Alimon Mwase (Millennium, Malawi), Mabousso Thiam (ACE, Senegal), and J. Dirck Stryker (AIRD), Sara Sievers (CID, USA), Arthur Goldsmith (HIID, USA).

Gerrishon Ikiara, Germina Ssemogerere, and Eckhard Siggel, Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda

Objectives

The main objectives of the study are to examine the competitiveness and comparative advantage of manufacturing industries in Kenya and Uganda in view of recent trade policy changes and present and future measures to integrate further the economies of the East Africa region. A further objective is to evaluate the impact of certain policies on the costs of manufacturing and by that on the competitiveness of the manufacturing sector, in particular trade policy changes, management of the exchange rate and measures that influence the cost of capital.

Policy environment

In Kenya, the government has pursued policies that emphasize markets and freer trade since the mid-1980s and, in particular since 1992. Quantitative restrictions on trade were phased out, the tariff structure has been made more uniform with lower rates, and the exchange rate has become market-determined. At the same time, the Government of Kenya has set a very ambitious target for the country to become a newly industrialized economy by the year 2020.

In Uganda, unlike in Kenya where industrialization was continuous, the industrial base of the 1960s disintegrated during the years of political instability and civil war. Since the early 1990s, the Government of Uganda has adopted a liberal trade regime with absence of quantitative restrictions, a market-based exchange rate and uniform tariff structure with low rates. Many Ugandan manufacturers are therefore back at the infant industry stage and, at the same time, face strong international competition.

Method of analysis

The method of analysis chosen for this study is based on the notion of cost competitiveness and its close link with the concept of comparative advantage. It is derived from basic trade theory principles, combining them with principles of social cost-benefit analysis. The method consists of the computation of three indicators of competitiveness and their decomposition into cost components representing the factors of production (tradable and non-tradable inputs, labor and capital), and many distortions. The latter are mainly policy-induced price distortions, but some distortions in costs are also caused by deficiencies in the quality of services such as utilities. To a large extent, these distortions are also, but more indirectly, policy-induced.

The three indicators are unit cost ratios obtained by dividing total costs of production through the value of output, using three different sets of prices. This definition of unit costs is particular and diverges from the usual definition of unit costs as costs per physical unit of output. Its purpose is twofold: first, to overcome differences in product mix and quality between competitors, and second, to make the indicators independent of data from international competitors. They do not exclude, however, international comparisons when data are available. We assume that the international free-trade price (cif) of traded goods equals the lowest cost of international competitors, but includes the transport cost to the port of entry. The unit cost ratio then compares the unit cost of African firms with the free-trade or border price. If their cost is inferior or equal to the cif border price, we consider a firm internationally or export-competitive. This indicator is called UCx and the criterion for export competitiveness is UCx of less than or equal to one.

The second indicator is the unit cost ratio at domestic prices (UCd), i.e., including all kinds of cost and output price distortions. The principal ones are the tariffs on output, the tariff on traded inputs, the potential misallocation of the exchange rate, distortions of the interest and wage rates, and distortions in energy, transport and communications costs. The indicator UCd is obtained by dividing total costs at market prices but the domestic value of output at ex-factory prices. It differs from UCx only in the denominator, which includes the tariff on output.

The third indicator is the one of comparative advantage, which excludes all distortions, on the cost and revenue sides. It is based on the theory of comparative advantage, which requires that unit costs at equilibrium prices must be inferior to the cost of international competitors. The separation of distortions from the equilibrium values of output and all inputs is made by calculating shadow prices for all products and factors that are likely to be distorted.

Data sources and research procedure

The study is based on three data sets. Kenyan enterprise data of 1984 are taken from a sample of 78 firms, collected for the Ministry of Planning in 1985. The second set of data pertains to 42 Kenyan firms in 16 industries, which are a subset of the earlier sample, with a few additions. The third set consists of a sample of 21 Ugandan firms in 12 industries. The data of the latter two sets are of 1997 and were collected by the team members of the present project. All data are quite detailed cost and revenue data and were obtained by help of a questionnaire and interviews. They also include qualitative answers to various questions concerning obstacles and sources of competitiveness. Additional data sources were documents of the IMF, Central Banks, ministries and studies of other organizations, in particular, the manufacturers' associations of both countries.

The research procedure consisted of the design of the questionnaire and a program for the computation of the indicators and their decomposition, the collection of data by from visits and interviews, the computation and interpretation of the indicators, and finally, the reconciliation of the findings with those of other studies.

Results of the analysis

The findings of the study are startling for Kenya, but predictable for Uganda. For Kenya, the main finding is based industry performance comparisons of 1997 with 1984, i.e., during a 13-year period of policy changes in the direction of freer trade and market orientation. Based on the three indicators, it appears that, on the one hand, industries have gained comparative advantage as one would expect, but have lost competitiveness due to increased distortions.

Starting with the situation in the mid-1980s, the average (across 78 firms) unit cost ratios were UCx = 1.3, UCd = 1.11 and UCs = 1.15. This means that the manufacturing sector as a whole, to the extent that the sample of 78 firms is representative, was neither export competitive, nor endowed with comparative advantage, nor was it competitive in the protected domestic market Since UCd was the lowest of the three ratios and lower than UCs, the sum of all distortions was negative, meaning that the distortions acted as implicit subsidies. In other words the combined net effect of the tariff and non tariff barriers helped the firms to compete against imports, and raising their profitability. Export competitiveness was weakest, as protection at the level of inputs raises unit costs and is not compensated by the protection of output prices, since exports pay only world prices.

In the comparison between 1984 and 1997 based on the smaller sub-sample of 42 firms the following average unit ratios have been calculated

	UCs		UCd		UCx
1984a	1.15	>	1.11	<	1.3
1984b	1.22	>	1.16	<	1.4

1997	1.08	<	1.23	<	1.45

where 1984a refers to the sample of 78 firms and 1984b to the smaller sub-sample. The fact that all number in 1984b are slightly higher than in 1984a means that the larger sample included firms that were more competitive, generally, than the ones that were also part of the 1997 sample. But the important point shown in this table is that in 1997, the inequality between UCs and UCd runs in the opposite direction than in 1984. The sum of all distortions (equal to UCd - UCs) is now significantly positive rather than negative as in 1984. Distortions, on average, act as penalty rather than as implicit subsidy.

The most important distortion, measured as a proportion of output value, is the interest rate distortion, which accounts for 22% of output value, while it had been -2% in 1984. The reason for this reversal is that in 1997 the average lending rate was 30%, 10 percent higher than the shadow interest rate, whereas in 1984 it had been estimated as slightly below the shadow interest rate.

The second factor weighing most heavily on unit costs in market prices vis-a-vis those in shadow prices is the exchange rate distortion, which had been absent in 1984. The Kenya shilling was found to have been well-aligned in that year, but became overvalue by 10% in 1997.

The net effect of protection on output and inputs was -15% in 1997, while it had been only -9% in 1984. This is surprising, because it means that, on average, the effect of protection on unit costs (which is unit-cost reducing if the nominal rate of protection (NRP) on output is higher than that on inputs) has increased. Since both NRPs have gone down because of trade liberalization, the explanation of this outcome is that the average NRP on inputs was reduced more strongly than that of output prices.

Finally, it is also certain that the energy, transport and communications cost distortions have increased. For this finding we have only qualitative evidence in form of the verbal and written responses to the 1997 questionnaire, but we have no comparable data for 1984. All firms reported excess costs in these three areas, which account for 1.5% (energy) and 1.3% (transport and communications) of output value. While these proportions do not appear to be large, in comparison with the ones discussed before, they are important factors that have contributed much to the deterioration of the business climate, or the "enabling environment". Electricity blackouts, unreliable telephone lines, unreliable rail transport and deteriorated road infrastructure account for these distortions.

Our analysis of the sources of competitiveness is based on the relative size of the cost components in total output value. This method is valid for the distortions, although most of them are obstacles to, rather than sources of, competitiveness. Concerning the sources of comparative advantage, however, which we consider as the real sources of competitiveness (as opposed to the temporary and nominal character of the price distortions), the method of decomposition cannot be applied rigorously. Excess costs of one factor may be compensated for by savings of another factor. In other words, the possibility of substitution between factors of production must be taken into account. Since our method of analysis would become too complex if we added a cost function analysis, we have resorted to a much simpler statistical test.

We argue that when one factor's proportion in unit cost (at shadow prices) is particularly high (meaning higher than average) whenever the total unit cost is higher than average, then it can be considered a source of comparative disadvantage. The opposite is then true for a source of comparative advantage. We have therefore regressed the coefficients of all four cost components, tradable and non-tradable inputs, labor and capital over the unit cost ratio UCs, and found a significant and negative intercept only for capital in 1984. This is interpreted as a negative bias of capital. In other words, firms seem to have overused capital in the mid 1980s, which contributed most significantly to their lack of comparative advantage. This conclusion is supported by the evidence of low capacity use rates, which were widespread in Kenya in that period. In the 1997 sample this bias has been diminished and is less significant, which is consistent with our observation of higher rates of capacity use in 1997.

Our comparison with Uganda is also carried out at the level of firms in the industry case studies, and at the level of industries. For the latter purpose, the data of 42 firms in Kenya are aggregated into 16 industries at the 3- and 4-digit level of ISIC. In Uganda, the data of 21 firms are aggregated into 12 industries with the same or very similar output mix In eleven of these twelve industries comparisons are possible, while in one Ugandan industry (animal feed) no Kenyan competitor could be persuaded to collaborate in our study. The comparison results in the following average (across 11 and 16 industries for Uganda and Kenya, respectively) for our indicators of competitiveness and comparative advantage.

	UCx	UCd	UCs
Kenya	1.41 >	1.2 >	1.07
Uganda	1.45 >	1.15 >	1.08

First, the inequalities run in the same direction in both countries. This means that in Uganda, as in Kenya, the sum of all distortions penalizes the manufacturers, in spite of the cost-reducing effect of net protection. While Kenya has a competitive edge on export markets, however, Ugandan firms are more competitive domestically. In other words, the Ugandan firms are, at present levels of protection and other distortions, more profitable than the Kenyan firms in our sample. As to comparative advantage, in both countries, manufacturing as a whole (to the extent that the samples are representative), has a comparative disadvantage, and both in the same order of magnitude.

The industries that have greatest comparative advantage in Kenya are fish and fruit processing, followed by grain mills and the beverage & tobacco industries. In Uganda, fish processing has also comparative advantage, but it comes second alter the unexpected leader in the automotive parts industry producing auto batteries, and footwear comes third. The inter-country comparison of

UCs, no matter its absolute value, shows that Kenya has an advantage in dairy products, grain mills, bakery products, textile & clothing, paints and metal products, whereas Uganda has an advantage in fish processing, footwear, paper products, cement and batteries. These conclusions, especially when confronted with the reality of present trade flows between the two countries, leads us to the following cautioning remarks.

First, the industries are not always equivalent in both countries, concerning output mix. The paper products industry, for instance, is represented by only one producer of stationary in our Uganda sample, but by two paper mills in Kenya, which export raw paper to Uganda. Although being in the same industry in our aggregation, they are at different levels of transformation, and one purchases from the other, rather than competing with each other. Furthermore, the paper industry is very capital-intensive, and we have shown in the study that our indicators are biased against capital-intensive industries. This bias comes from the fact that unit costs include the full opportunity cost of capital. Firms that are fully owned and not in need of substantial borrowing, may be more competitive than the indicators suggest.

Third, and more generally, all our figures are prone to special-case biases. Since we have obtained data for only one year, the performance of the firms in that year may have been exceptionally good or bad, and since the sample of every industry is very small, such biases attach to whole industries.

Policy conclusions

In spite of these words of caution, we believe that policy conclusions can be drawn from the analysis. They differ slightly for the two countries, but let us start with one conclusion that is valid for both.

We conclude that the opening of the countries' borders to trade, both regionally and internationally, is a necessary, but not a sufficient condition for the growth and development of the industrial sector. Liberal trade policies must be cautiously monitored and complemented by other policies that are consistent with the former and can be seen as part of an industrial strategy. Such policies must include cautious fiscal and financial policies that prevent the cost of capital to be excessive. They must also include a cautious approach to monetary and exchange rate policy, avoiding the competitiveness-reducing effect of overvaluation. Third, and equally important, an industrial strategy can only work if the transport and communications infrastructures are maintained in good condition and expanded according to the needs of industries and their markets. The utilities must also provide reliable services at competitive prices. And last, but not least, the government bureaucracy must reduce as much as possible regulatory inefficiency (red tape) and avoid corruption.

For Kenya, these conclusions are particularly imperative, since its industrial sector may be on a downward slide that makes the ambitious goals of the Government seem unrealistic. The indicators we have generated show that more liberal trade policies do seem to move resources more toward activities with comparative advantage, but also that they do not guarantee international competitiveness. To reach this goal, the important other distortions of the cost structure have to be avoided or reduced, and that requires much more discipline in the policy areas singled out above.

For Uganda, the general conclusions also apply, but the sector is still on a positive slope. It can easily reverse this trend, however, if the conditions of the sector are not carefully monitored and the discipline and consistency of various policies are not observed. The indicators proposed in this study provide a useful tool, in our view, to monitor the impact of various policies on the competitiveness of not only manufacturing, but all economic activities.

Paul Kwengwere, Alimon Mwase, Mabousso Thiam and J. Dirck Stryker, ***<u>Barriers to Business Expansion in Malawi and Senegal</u>***

The genesis of these studies is that, after years of Structuring Adjustments, many African countries have made little business expansion progress. This has led to a desire to quantify constraints faced by firms and to set priorities. There exists a host of constraints such as public utilities, availability of term finance, productivity, etc.

Case of Malawi

Researchers surveyed 20 firms with export potential. These firms were not selected randomly. About one half of these firms operated below capacity. The constraints found were ranked in the following order:

1. Telecommunications: they were unreliable and could cover only one-third of the territory
2. Water: undependable
3. Electricity: found that 80% of firms surveyed invested in generators, raising unnecessary costs
4. High cost of term finance due to high inflation
5. Uncertainty in economic environment (unstable exchange rates)
6. A breakdown in physical facilities
7. Insecurity leading to unnecessary cost
8. Fiscal disincentives
9. Distorted labor markets

Case of Senegal

For this study, researchers surveyed 54 firms and found these major constraints:

1. Unreliable electricity
2. Financing due to low competition between banks and lack of legislation regarding the relationship between banks and clients
3. Difficulties to access foreign markets
4. Difficulties in input supply
5. Competition from imported products
6. Difficult relation between private sector and bureaucracy
7. Transport constraint in air, rail and maritime
8. Inefficient management of firms

Sara Sievers & Arthur Goldsmith, <u>Perceptions of Governance in Africa: A survey of business and government leaders</u>

This ongoing project involves survey work in eight countries and builds on work undertaken by the World Bank. Questions were asked to private business, professional organizations and associations and civil servants. Preliminary results of the work show that:

- The business community sees more problems with the public sector than civil servants
- Professional organizations seem to agree with private business people regarding the public sector
- Business people appear more optimistic about the future (Today is better than yesterday and hope that tomorrow will be better)

Discussion from the floor

Question 1: Have looked at electricity pricing? Why are we advocating more capital while there exists excess capacity?

Question 2: Though all the diagnostics is familiar to all of us, why do not we have solutions to these familiar constraints? Why actions have not been taken rapidly for these constraints?

Question 3: Does the business community want to get involved in addressing the constraints?

Question 4: The power sector is generally financed by donors who have a least cost approach. Meanwhile, this approach has a negative impact on the sector. Did researchers investigate this problem?

Question 5: As a worker at the Zambia Power Utility, the actor would like to inform the audience that the Southern African State has a power pool aimed at: (1) Supplying electricity to countries facing power problems, and (2) reducing costs in the long run.

Question 6: We need to brainstorm about finding solutions to the power problem, which is apparently common to all the countries.

Question 7: Which recommendations should formulate for the constraints identified?
A study funded by USAID in Senegal identified the legal and judiciary problem as the most binding constraints in Senegal. Is not a constraint today in Senegal?
Which solutions should we propose to address the constraints identified above?

Question 7: He has serious problems with what Mr. Siggel presented to the audience because (1) it is not clear whether the competitiveness of the firms is in domestic markets or foreign markets, and (2) no assessment was made in the internal efficiency of firms while the blame is on the external environment.

Responses

Goldsmith : Agrees with all the criticism formulated by the audience regarding identifying well-known constraints instead of finding solutions to the problems. This has implications for his study. Thus far some have advocated building the civil society (business associations) and yet this has yielded very few solutions to the problems. What needs to be done next to address the problems?

Stryker : In Mali, economic growth has put demand pressure on electrical power generation. During his visits to Mali, there are many power shortages to the point where this is affecting the efficiency of the firms. So far, electrical power is provided by public entities. In contrast to the Malian situation, there exists a saving of more than one million dollars in Southern Africa owing to Power Pool. What this means is that countries need to be less nationalistic and need to get together to satisfy consumer demand.

Kwengwere : He sees internal management of firms as a constraint to expansion.

Thiam : He also considers internal management of firms and power as binding constraints.

Siggel : In Kenya, price of output is close to marginal cost, but firms think that cost is too high. For him, the constraints identified require government intervention, but it lacks political will to address them.

As for his study, it has focused on the internal operations of firms but it is so detailed that he could not report on them.

For Uganda, the manufacturing sector is very small compared with Kenya. The recent growth of this sector originates from expansion of capacity, renovation by adding to existing capacity and extension of work hours. The issue for Uganda is how to move from capacity expansion to long term investment? This is not happening because the country lacks an industrial strategy. The manufacturing sector may be taxed heavily and capital cost is also high.

Chair: Believes that we need to find solutions to the problems identified. In this respect, advocacy needs to be enhanced and the legal and judiciary framework needs to improve to resolve conflicts expeditiously according to the existing laws.

IV. Afternoon Breakout Sessions

Session #1 Cross-Border Trade

Chair: **Mantala Coulibaly (Office of the Prime Minister, Mali)**
Rapporteur: **Eckhard Siggel (CREFA/Laval University, Canada)**
Presenters: **Rogers Sezinga (TAN Discovery, Tanzania), Haji Semboja (ESRF, Tanzania), and Lucie Phillips (IBI, USA)**
Emilienne Raparson (CERED, Madagascar), and Jeffrey Metzel (AIRD,USA)

John Dadson, (University of Ghana)

Rogers Sezinga, Haji Semboja, and Lucie Phillips, Gemstone and Gold Mining in Tanzania

The study inquires whether mining will lead to sustainable development in Tanzania. Mining has experienced rapid growth in Tanzania since the Government reopened mining to the private sector in the 1990s. This set off a mining boom, with gold, diamonds and colored gems being mined. Small-scale mining has grown since 1991, and large-scale exploration is just starting. There are also prospects for platinum, nickel and many industrial minerals. By 1995, about 550,000 people earned income form mining.

Whether mining will bring widespread, sustainable development depends on world markets and the stakeholders. The world market for diamonds will see long-term demand growth and increased competition. For gold, long-term prospects are similar, with supply growing rapidly in Africa and Asia, and widespread liberalization. For colored gems, margins are low and demand and supply more volatile. The Tanzanian stakeholders are miners, two levels of government, central and local, and host communities.

The benefits are coming through foreign investment (US$58 million in 1998), government revenues (royalties of 3% of gross gold/gem exports, 5% from rough diamonds), and job creation (over half a million artisanal and about 600 per large mine). But there are also environmental, economic and social costs. Among the latter two are "Dutch disease" effects, inflationary pressures, corruption and, possibly, civil unrest. These effects often result from reliance on direct benefits.

Indirect benefits may be more productive: contributions of international mining companies to infrastructure development, training and education. Government can assure that infrastructure extends to communities, local environment is kept clean, industry diversifies through linkages, and education and training are upgraded.

Both small-scale and large mining have their advantages. Small mining of surface deposits is widespread and generates incomes and FOREX in local communities. Large mining exploits big and rich deposits that are difficult to access; it generates profits and FOREX offshore, but some money stays local. Modern, large-scale mining outproduces small-scale mining, both in gold and diamonds. Projections show, however, that gold mining would grow rapidly and exhaust the deposits quickly: maximum production would be reached by the year 2002, followed by rapid decline.

A balanced policy can achieve more permanent benefits. It would focus on infrastructure, security, single and transparent registration of claims, and stable policies in stable communities. Conflicts between small and large miners can be overcome through changed incentive structures.

Balanced policy would reserve alluvial deposits for small mining and require reversion of sub-economic deposits to small miners. Large companies that focus on deep mining would

buy out small claim holders. It is being proposed that mines buy artisanal production. This would fund the construction phase, slow the big mining rush and generate more jobs for more years.

Policy recommendations include a revised tax structure (already in progress), with a focus on balance, a single and transparent register, revision of the 'use it or lose it' policy, facilitation of co-mining and tackling of social/environmental problems.

Emilienne Raparson and Jeffrey Metzel, <u>Domestic Marketing of Vanilla Exports in Madagascar</u>

The study investigates how trade liberalization has affected the production and trade of vanilla in Madagascar. Vanilla was the last agricultural commodity to face liberalization in Madagascar. Significant reforms have taken place since 1993.

The planned reform measures were, generally, carried out, but difficulties have arisen in establishing new institutions to govern the vanilla market. The reduction of vanilla quality, for instance, and the reinforcement of an entrenched market positions were unintended consequences.

The reform was successful in raising Madagascar's share of world trade, but at the cost of a lower export price. It led to an increased number of processors and exporters, but the stocking profession disappeared. Therefore, it changed the way vanilla is marketed in Madagascar.

Initially, the effect of the reform was to raise incomes of the actors involved, and in particular, that income was transferred to the producers. In the most recent period of the reform, however, all segments of the economy have lost ground. Producers, processors and the public sector suffered unexpected losses.

The reform has led to an end of Madagascar's monopoly in the world market, but it has not ended monopsonistic behavior in the domestic market. Using an econometric model of the international market for vanilla, the authors simulate three alternative scenarios, competitive trade, tax maximization and economic benefit maximization, and find that all three scenarios would yield additional benefits over the current situation. They conclude that the reforms are not complete and their impacts are still working through the market.

The study leads to several recommendations. For Madagascar's internal market the recommendations include: increasing competition among green vanilla buyers to improve returns to producers, increasing the independence of producers by diversifying their incomes, supporting development of producer and processor associations and an inter-professional group, and raising vanilla quality by reintroducing market coordination procedures. With respect to Madagascar's position in the world market, the country should examine the costs and benefits of reinstating a modest export tax, avoid the reappearance of producer cartels, support new entrants into the export market through provision of information on world markets, and establish the conditions for a commodity exchange for vanilla in Madagascar. Also, it should develop trade finance mechanisms for exporters.

John Dadson, ***<u>Cross Border Trade in Ghana</u>***

The author of this study (coauthored by G. A. Morris, IBI, USA) presented the same report as the one already submitted in November 1998. The reader is therefore referred to the rapporteur report of the Dakar meeting.

Session #2: Financial Markets in Africa

Chair: **Fratern Mboya (Capital Markets & Securities Authority)**
Rapporteur: **Malcolm McPherson (HIID, USA)**
Presenters: **Sam Ziorklui (Howard University, USA) and Fritz Gockel (University of Ghana)**
A.G. Abayo (ESRF, Tanzania) and Kofi Osei (University of Ghana)
Aleke Dondo (K-Rep, Kenya) and Jay Rosengard (HIID, USA)

Sam Ziorklui and Fritz Gockel, ***<u>"The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization in Ghana"</u>***

To set the context, many studies note that Africa is poorer now than it used to be. A common explanation for this has been the constraints imposed by the lack of long term capital. The two studies on Ghana and capital market development discussed address the issue of how that constraint might be eased.

Ghana had a long history of macroeconomic instability reinforced by low interest rates ("cheap" credit), the direct allocation of credit, and the poor supervision of financial organizations. The outcome was a fragile banking system with large arrears, high transaction costs, and low confidence.

To reduce these trends, the government of Ghana introduced FINSAP, the financial sector structural adjustment program. This program was designed to deepen the financial system by liberalizing interest rates, introducing new banking laws, and privatizing banks.

The impact has been the formation of seven new banks and sale of two state-owned banks. There has been an increase in competition resulting in a closer association between commercial and development banking and product innovation. The competition has been primarily non price. An increase in smart card use has allowed Ghanaians to avoid using checks.

One outcome, however, is that the M2/GDP ratio has not increased but the cash to GDP ratio has. Banks have made large investments in Treasury Bills. There has also been crowding out by proxy. The government insists that contractors pre finance their work. This is government borrowing in another guise.

This financial system is characterized by large interest rate spreads (16%), negative real interest rates on deposits, positive real lending rates, increased financial services, and marginalized network banks due to transactions costs (especially in rural areas). Macroeconomic instability has led to an increase in dollarization and reduced confidence.

Bank supervision has been expanded beyond the CAMEL criteria to include data on transactions costs, the interest rate spreads, and risk characteristics of portfolios. The services sector has benefitted but agriculture has done less well.

The policy recommendations include:

- Judicious fiscal and monetary policy
- Independent central bank
- Enabling setting, especially outside the cities
- Work on reducing the high cost of check clearing
- Introduce deposit insurance
- Action to reduce transactions costs (e.g., bill counting machines)
- Need for a critical rethinking of the role of "development" banks

Conclusions

The 2020 visions of middle income status for Ghana are not attainable without financial development. Dollarization should be legalized rather than outlawed. Measures are needed to increase confidence.

Sam Ziorklui, Kofi Osei , and A. G. Abayo, <u>The Development of Capital Markets and Growth in Sub-Saharan Africa</u>

The policy research questions were:

- What are the major constraints to the development of capital markets in SSA?
- What impact has financial sector reform had on the development of capital markets and financial institutions?
- Has existence of a stock market in Ghana been a source of long-term capital for private corporations? Has this had an impact on poverty alleviation?
- Where capital markets are limited (as in Tanzania), what are the sources of supply of long-term credit to the private sector?
- What links are there between capital market development and real sector growth?
- What benefits and challenges are there to Ghana and Tanzania from regionalization and globalization of capital markets?

The study was based on field surveys and interviews of capital market institutions, commercial banks, regulatory institutions, and "randomly selected employees of private corporations". The study covered the period from January 1990 to December 1998.

The study found that the Ghana government's commitment to financial reform had yielded positive results. The Ghana stock exchange has mobilized billions of cedis. Stock listings increased from

11 in 1989 to 21 in 1996. Bank restructuring and interest rate liberalization have strengthened the financial system and complemented the capital markets. Improved regulatory laws have strengthened the legal foundations of the capital market.

The GSE (Ghana Stock Exchange) has performed well. Now cross listing of Ashanti Gold Fields in major stock markets adds to its prestige.

There are a number of challenges and problems facing the capital markets. The policy changes have dealt with some of the problems; but others remain.

The weak macroeconomic environment increased the risks and volatility of the capital markets retarding the pace of financial deepening. Fiscal deficits financed by the issue of high-yield securities have crowded out supply of private securities. Investors showed a preference for high yield short-term securities. Risks to foreign investors from their participation in the GSE have been increased by high inflation and devaluation.

Problems have been the limited listings. The absence of hedging mechanisms and options increase the exposure of investors to risks. The Ghana tax system favors government securities and penalizes long-term investment. Other problems include lack of liquidity, limited product innovation, and the small number of products reduce the attractiveness of the stock exchange to investors.

These limitations have undercut the role of capital market development in alleviating poverty. Bank closures in rural areas have restricted the services. Prudential regulations restrict access of small enterprises to credit. Downsizing of government has raised the number of urban poor because they have limited access to credit. The government's anti poverty program in Ghana has been bedeviled by corruption and nepotism.

Policy Recommendations:

The policy recommendations are:

- Create a viable macroeconomic setting
- Take steps to develop public confidence
- Create incentives for capital market development
- Promote product innovation

Finally, because of limited investor awareness, there is a need for public education to overcome problems from "infancy" of the market. With globalization there are benefits but it requires a local acceptance of foreign participation.

Aleke Dondo and Jay Rosengard, ***Financial Development for Microenterprises in Kenya: The Transformation of K-Rep from NGO to Commercial Bank***

The transformation of K-REP occurred against a background of market segmentation. I – informal arrangements (ROSCAS), II – formal, subsidized financial NGOs, and III – the formal financial system.

Most of the people do not participate and were excluded from the market by virtue of the limitations of the models employed.

K-REP started in 1984 providing small loans to the poor. By 1988 the high costs of the operation began to be questioned. K-REP lending procedures were based on Grameen Bank principles. A major problem has been continued aid dependence to support the lending program. In Kenya, K-REP managers want to rely on savings mobilization not donor support.

Their objective has been to start commercial banking operations but retain the focus on small-scale and micro lending.

Therefore, the effort was:

- Establish a financial organization that did not depend on aid to be viable
- Rely on savings that are a cheapest source of finance
- Wanted a sustainable organization
- Focus resource flows to the poorest segments.
- Create a permanent institution to address problems of the poor

An effort was made to bring in other investors --- IFC, AfDB, Standard Bank. K-Rep has also introduced an Employee Share Option Plan (ESOP). It has taken time to formalize this arrangement. Now have K-REP NGO to reach the poor and the K-REP bank. The lending activities are designed to reach fishermen, nomads and mortgage finance and insurance. This effort is designed to help the poor become organized financially.

The challenge of financial viability among Financial Service Associations (FSA) within remote villages has been met. Though remote and isolated, these are doing well.

To succeed in mobilizing voluntary savings, marketing will be a problem. Customers require access, safety and a decent return. This requires the minimization of back office costs. But, it raises the problem of how to reap economies of scale.

A major issue in Kenya has been regulation and supervision – of KREP itself, of other micro finance operations, and of the nonbank financial institutions.

Comments from the floor

To have a viable financial system, an economy needs a strong productive sector. In other countries, it has been found that local banks are more likely to take risks. Has this been the experience in Kenya? The problem is how to encourage financial participation by foreign banks while maintaining the support for risky lenders.

Other countries have found that capacity building should be linked to lending. Is this part of K-REP's operations?

With Basle Accords lending to risky groups is discouraged. How can this be overcome in developing countries so that the poor are not disadvantaged through bank regulation?

Lending to the poor raises the issue of "what makes people poor?" Why are they vulnerable and how does lending of the K-REP type help?

What is the supply side of securities? Have the researchers considered the structure of the private sector and whether they are willing to tap the financial markets? Many businesses are family owned and do not want to be visible by listing their shares or borrowing widely. This risks the dilution of their control.

What role do foreign investors play? Can the markets be restructured to make them more attractive for foreign investors?

Some countries had Over the Counter markets. Can these be revived?

Many financial sector reforms have not benefitted the poor. Can KREP maintain sustainable programs that do help the poor?

Response

The presenters emphasized that financial development requires price stability, fiscal prudence, and opening up to foreign influences.

Session #3 Macroeconomic Issues

Chair **Pepe Andrianomanana (Center for Economic Studies, Madagascar)**
Rapporteur: **Rita Aggarwal (USAID, USA)**
Presenters: **Nehemiah E.Osoro, Philip I. N. Mpango, Hamisi H. Mwinyimvua (all of University of Dar es Salaam)**
Bruce Bolnick (HIID, USA)

Nehemiah E.Osoro, Philip I. N. Mpango and Hamisi H. Mwinyimvua, Enhancing Transparency in Tax Administration in Tanzania

Fiscal reforms to address budget deficits in many countries in sub-Saharan Africa including Tanzania, have laid more emphasis on austerity measures on the expenditure side (across-the board cuts in government spending) and introduction of new taxes and recently, rationalization of the tax structure. Little effort has been invested in addressing the problems of poor tax compliance and leakage in the revenue system. This report focuses on the chronic problem of tax evasion and the role of transparency in tax administration in enhancing tax-compliance in Tanzania. Transparency in this study is defined to encompass clear and unambiguous tax assessment or inspection criteria and collection methods, availability and access to tax related information (such as collections, compliance rates, duty exemptions, evaders and sanctions against culprits), taxpayer rights and obligations and appeal mechanism.

Two approaches were used to accomplish the objectives of the study. The first was the quantification of the magnitude of tax evasion by major tax categories from published secondary data and internal records of the Tanzania revenue authority (TRA) and other government institutions. This was done in the first phase of the study and involved deriving magnitudes of tax evasion using indirect measures. The second approach, which attempted to corroborate the findings derived in phase one, utilized survey data collected from questionnaires administered to taxpayers and tax administrators. The aim of this approach was to get a sense of the extent to which lack of transparency constrains tax compliance and whether enhanced transparency in tax administration can enhance tax compliance. Dar-es-Salaam's tax region, which accounts for about 80 percent of all the tax revenue collections, was used as a sample area.

The study finds that tax evasion in Tanzania remains rampant. On average, tax evasion is around 30 percent of the total tax liability. Tax evasion takes place both in form of malpractice by taxpayers and flouting of established procedures by tax officials. Taxable activities that are most prone to tax evasion include import trade, retail trade business, service delivery, small and medium scale industries and liberal professions. However, there are wide variations in evasion by and within tax categories and by type of taxable activity. Overall, this study shows that tax evasion in Tanzania is very high in respect to tax categories that are typically subject to higher rates or in sectors with too many taxes. In part, complex tax legislation, corruption and lack of transparency in tax administration generate this.

The study suggests ways to improve transparency in tax administration and tax compliance. Key suggestions include registration of property owners, sole proprietors and small enterprises; imposition of deterrent penalties against offenders – taxpayers and tax officials alike; computerization of tax administration; and introduction of a vetting mechanism for both tax officials and other senior politicians and Government officials. Others suggestions are: vigorous taxpayers education on correct or required tax procedures, tax legislation, self assessment, how tax money is spent, and importance of demanding receipts against purchase of goods or service; increased resources for frequent tax audits; inspection of duty exempted goods; strengthening and publicizing the system of tax informants; further rationalization of the tax structure; and improvement of tax administration.

Bruce R. Bolnick, Financial Programming in East and Southern Africa

The term "programming," in this context, refers to quantitative methods for *determining policy targets* which are consistent with explicit macroeconomic objectives and assumptions about the structure and performance of the economy, over a short to medium time period (often twelve to eighteen months). In short, a programming model asks, "what macroeconomic policies are required to achieve a given set of outcomes?" Thus, a programming exercise starts with the objectives and derives the corresponding policies, with an emphasis on *consistency*.

In *financial* programming, the consistency conditions are manifest in an interdependent set of macroeconomic accounting identities, including national accounts, the balance of payments accounts, financial-sector balance sheets, and the government budget constraint. Values of the various model parameters also have to be consistent with the structure of the economy and the designated policy objectives. The standard financial programming model focuses on the objective of *macroeconomic stabilization,* including both external and internal balance. Operationally, the general approach can be outlined as follows:

Step 1. Specify target values for objectives such as inflation and foreign exchange reserves.

Step 2. Project the values for variables that are "exogenous" to the model, including real GDP growth, prospective inflows and outflows of donor financing, and prices for main export products.

Step 3. Derive the values of macroeconomic variables that are "endogenous," because they depend on the values determined in step 2; the endogenous variables include nominal GDP growth and the exchange rate.

Step 4. Derive the permissible growth of money supply (usually, but not always defined as M2) and the corresponding expansion of domestic credit. Establish a target for bank credit to non-government, then derive the allowable amount of domestic financing for the budget, as the balancing item in the monetary program. Step 4 is the *monetary program.*

Step 5. Combine the projection of net foreign financing and the target for net domestic financing, to determine total funds available to finance the budget deficit. This determines the target budget balance. Factor in the projected level of domestic revenues and derive the allowable target level of government expenditure. Step 5 is the fiscal program.

The standard FP model can be augmented in many ways, such as incorporating econometric estimates of underlying structural relationships, or adding structural equations to bring the determination of otherwise exogenous variables into the model. A particularly important class of modifications was introduced a decade ago in response to widespread concerns that focusing exclusively on stabilization objectives meant a neglect of the need to stimulate economic growth. This concern led to the development of models that incorporate a simple growth module into the macro-financial framework. Nonetheless, in many countries (especially where data on the real sector is quite weak), the standard approach is still to analysis real GDP growth separately, and introduce it into the program as an exogenous parameter.

THE IMPORTANCE OF CAPACITY FOR FINANCIAL PROGRAMMING

Achieving and maintaining macroeconomic stability is a fundamental role for the state in any economic system, as a cornerstone for promoting economic development. Since financial programming is, in essence, a quantitative framework for achieving macroeconomic objectives, an approach of this sort would be required *even* if *IMF conditionality had never been invented.* Yet countries desiring an IMF "stamp of approval" have no choice in the matter: they must adopt macroeconomic policy targets based on financial programming analysis. The issue is whether they cede the technical work to IMF staff, or undertake their own in-depth analysis of macroeconomic conditions. Long-standing practice in the region has been to let the Fund do most of the analysis. This may be explained by institutional constraints, and perhaps a lack of commitment by leaders to macroeconomic stability -- given the implication of belt tightening and stringent financial controls. Another factor may be the widespread concern that financial programming is an inappropriate foreign ideology imposed from Washington.

Whatever the past justification, the use of financial programming should be high on the policy agenda for every country in the region. Every country now has an ample cadre of economists to manage a suitable design programming model, and most countries, unfortunately not all, have become much more serious about achieving macroeconomic stability. This is partly a result of bitter lessons from first-hand experience with the adverse effects of lax policies. Another factor is the increased accountability for delivering positive results, stemming from the spread of multiparty democracy and the emergence of civic debate on economic policy. A growing commitment to stability can be seen in lower inflation and higher growth across sub-Saharan Africa, and heard in the daily clamor for faster and broader economic development. Finally, governments and donors alike are paying increasing attention to "local ownership" of conditionality policies. There is a growing appreciation of the fact that policies made in Washington are less successful than policies with local roots, to the disadvantage of hosts and donors alike.

These deep contemporary currents create pressure for the achievement of home-grown policy analysis. Recognizing that technical analysis undertaken by the IMF is often biased appreciably toward stringency is important. Considering the inherent uncertainty in setting parameter values for the macroeconomic consistency analysis, there is inevitably a *range* of plausible values for each parameter. Should the program assume real growth of 4% or 5%? Should the reserves target be set at 4.0 or 4.5 months of imports? Should we assume that the velocity of money will be stable or decline by 2%, showing a gradual rise in monetization? Within this legitimate range of uncertainty, judgments must be brought to bear, recognizing that every parameter affects the derived policy targets. Even assumptions that seem far removed from the policy arena -- for example, the projection of Other Assets Net of the banking system--can have a substantial effect on the program targets.

By systematically exploring various sets of *responsible* parameter values, one may generate a high-to-low range for fiscal and monetary targets, consistent with the stated objectives for internal and external balance. Adopting "tight" parameter values across the board -- call this the "austere scenario"-- generates a program that maximizes the likelihood of favorable outcomes for inflation and foreign reserves. But as always, there is a trade off: the austere scenario implies fewer funds for public services, higher taxes, tighter credit markets, and greater risk of underperforming on economic growth in the short to medium run. Alternatively, parameter values at the other end of the range of uncertainty yield less stringent monetary and fiscal targets and less likelihood of a serious contraction, but with more risk of underperforming on inflation and foreign reserves. To sharpen the point, let's call this the “growth scenario”. Intermediate parameter values will generate a macroeconomic program with an intermediate balance of risks and costs.

Characteristically, the IMF sets parameter values very conservatively, creating a strong tendency towards the austere end of the range. In fact, some programs go "off track" because the track is unrealistic, not because of mismanagement in implementing the program. The need for developing local capacity for financial programming is therefore be clear. Only by taking command of the macroeconomic framework in detail can authorities ensure that the structural assumptions and balance of risks adequately embody local judgments. In reality, the opposite has been the norm. Many of the assumptions which underpin the Fund's program projections are insufficiently scrutinized by government negotiators. Even when government officials do challenge the Fund on certain assumptions, it is difficult to make a compelling case for modifications -- usually involving relaxation of the targets -- without offering a careful alternative analysis of the technical options.

To appreciate the serious repercussions that may ensue from leaving the Fund in control of the technical analysis, it is useful to examine examples from Zambia and Malawi.

Example 1: Zambia 1993. Facing a dangerous inflationary spiral at the end of 1992, the government of Zambia agreed with the IMF that the 1993 program should target a decline in inflation to less than 20% by year end. Clearly, stringent policies were needed. The question was: How stringent? In view of international evidence showing that the velocity of money generally begins to rise in the first year of a successful disinflation, it seemed appropriate to assume a downward trend in velocity for 1993, but the IMF opposed the idea of assuming "remonetization." They held that disinflation would lag the deceleration in money growth, causing velocity to rise further. The government acquiesced, and the program for 1993 was approved with extremely tight monetary targets, derived from the indicated velocity assumption.

It took several months for the new cash budget system to operate effectively, but by June, fiscal and quasi-fiscal pressures on the money supply finally came under control. Thereafter, monetary policy tightened abruptly. For the period June through September, reserve money grew at an annual rate of 10%, down from 68% a year earlier. Simultaneously, real interest rates on Treasury bills soared to over 100% (from -28% the previous year). By October, the three-month inflation rate was below 30%. Most remarkably, the Zambia kwacha began to *appreciate* in July as money growth decelerated, even though donor funding remained tight. The basic cause was a virtual evaporation of demand for foreign exchange, at a time when Bank of Zambia had to be selling forex to meet the pre-programmed monetary targets for the third quarter. To attract buyers, BOZ continued to push down the price of forex, even though the market was signaling an increase in demand for kwacha balances. By October, when the kwacha had strengthened to 368 per dollar, from 551 in June. Faced with this evidence, the Fund agreed to loosen the monetary targets. Money growth accelerated, and the exchange rate rebounded to 520 by year end, at which time the three-month inflation rate was down to 10%.

The extraordinary bubble of appreciation, combined with extremely high real interest rates, created tremendous strain and uncertainty for the productive sector. A major source of the instability was that monetary targets were too tight and not re-adjusted quickly enough. If the program for 1993 had allowed for even a small rise in money demand and decline in velocity, the path of disinflation would most likely have been less disruptive, though inflation might have declined a bit less quickly. Whatever one believes about the appropriate velocity assumption for the macroeconomic program in 1993, the lesson is that assumptions matter a great deal. Reasonable views and informed judgments of the government team should carry greater weight in determining the program targets.

Example 2: Zambia 1994. Again in 1994, the Fund's technical analysis had serious repercussions for the economy, this time on the fiscal side. The Fund's analysis produced a large financing gap in the fiscal program, which led to the adoption of fiscal measures that included a rise in the sales tax rate from 20% to 23%, reversing two years of tax-rate reductions to stimulate growth. Yet the fiscal gap was a product of the technical assumptions. Under alternative assumptions -- well within the legitimate range of uncertainty -- the fiscal gap would not have arisen at all. If the program had assumed: a slightly smaller *rise* in foreign exchange reserves; a bit less depreciation of the real exchange rate; a smaller, but still robust target for growth of credit to non-government; a decline in velocity to the level achieved in 1992; and a target of zero net non-bank borrowing in *real* rather than nominal terms, then the allowable net bank credit to government for 1994 would have been higher by 1.6% of projected GDP - given the same inflation target. No hike in the sales tax would have been needed. Once again, the point is not to argue for a particular set of assumptions, but simply to show how important the assumptions can be.

Example 3: Malawi 1999. In December, 1998, the IMF concluded negotiations with the Malawi Government on the ESAF program for 1999. By March, 1999, M2 was above target by more than K1 billion, or more than 15%, yet many indications suggested that liquidity was not at all excessive. The foremost indication was low demand for foreign exchange, during a season when banks are usually net sellers. Indeed, it was difficult for the Reserve Bank to withdraw reserve money via foreign exchange transactions. Unlike Zambia in 1993, RBM chose *not* to precipitate a sharp appreciation to stimulate sales, but this meant that the monetary target was missed by a wide margin. Other market signs of *tight* money included negative levels of excess reserves in the banking system, a large increase in commercial bank borrowing from RBM at high penalty rates, and very high forward-looking real interest rates. By all appearances, real money demand had risen in response to high interest rates, a relatively stable exchange rate since August 1998, a strong foreign exchange reserves position, and good prospects for falling inflation going into the harvest season.

How could the monetary target be so far off so quickly? Once again, the answer lies in the technical assumptions which were fed into the IMF financial program. These included an underestimate of the inflation rate as at December, 1998, and an assumption that velocity would rise by 12% in 1999 on a period-average basis. This sharp decline in demand for real money balances is difficult to rationalize. If anything, the program scenario of declining inflation, high real interest rates, and a fairly stable exchange rate suggested that money balances ought to be recovering in 1999, not falling. When RBM ran its own financial program using alternative values for these key parameters, they computed a March target for M2 that virtually matched the actual value.

Let no one mistake these three examples as arguments for lax policy management. This is emphatically not the intention. Irresponsible options must be ruled out of bounds by any government seriously concerned about achieving macroeconomic stability and establishing a reputation for credible policy management. Rather, the issue is the importance of taking command of *the technical work that determines program targets,* in consultation with the IMF. Local implementation of financial programming will strengthen government's hand in the negotiations, generate more practical programs, and enhance local ownership of the macroeconomic policy targets.

SOME COMMON CRITICISMS

The question remains as to whether financial programming is an appropriate framework for application to low-income countries in Africa. Let us briefly consider six common criticisms.

- Financial programming is based on a rigid monetarist model that has no relevance for countries in this region. Early versions of the financial programming model were definitely cast as monetarist models, and the analytical framework developed by the Fund was a precursor to the monetary approach to the balance of payments. The centrality of the quantity equation sounds rigidly monetarist. Yet the quantity equation itself is an identity which applies to every economy every year regardless of ideology. It does not require a rigid mechanical link between money and inflation, given suitable assumptions on velocity and real GDP growth. As discussed in section II, the financial programming model is essentially a consistencyframework based on technical identities: the national accounts identity, the budget constraint, the monetary survey, the balance of payments identity, and yes, the quantity equation. To postulate that the change in M x V equals the target change in P x Q is equivalent to saying that aggregate demand equals aggregate supply - and easier to compute in economies with weak data on aggregate demand.

- Financial programming is a framework imposed by Washington; the tool is needed only because of the external pressure. The IMF certainly does impose monetary and fiscal targets based on financial programming analysis. Even without the external pressure, however, governments need some form of financial programming model to ensure that fiscal and monetary targets are consistent with intended macroeconomic objectives.

- Financial programming is too complicated to be useful in low-income countries with limited technical capacity. IMF missions use a model which embodies detailed interrelationships between national accounts, balance of payments, monetary accounts, and fiscal accounts, plus other assorted elements, case by case. The complexity reflects the cumulative effect of years or decades of refinements. For low-income countries, there is a long history of advanced models being imported and not sustained. It is best to begin with a simple system that can evolve to incorporate additional elements over time. A basic set of consistency conditions can be implemented in a format as simple as one-page spreadsheet.

- Financial programming gets things backwards. Targets should be determined by the need to provide essential public services and stimulate the economy, not from monetary analysis. This claim has wide circulation: instead of curing macroeconomic imbalances by compressing demand, the country is better served by stimulating production and exports, requiring larger government expenditure and bank credit. The argument is not illogical: in terms of the quantity equation, why not increase Q rather than reducing M? The problem is that this route is entirely impractical under circumstances of high inflation or large external imbalances. If the money supply is growing by 30% or 50% or 100% per year, it is impossible for real output to rise accordingly. Likewise, exports cannot possibly respond enough in the short term to close glaring gaps in the balance of payments. Restoring macroeconomic balance requires lower growth of money and nominal aggregate demand.

- Financial pro gramming causes contraction, unemployment, and declining real wages; other are needed models to foster growth rather than poverty. Macroeconomic stabilization requires contractionary measures when initial conditions entail large internal or external imbalances. Blaming the model is like blaming the mirror for revealing blemishes. The contractionary effect of adjustment has to be weighed against the long-term damage to growth, job creation, and standards of living, which result from *failing* to control inflation and achieve a sustainable balance of payments position. Still, as noted above, the IMF does have a distinct tendency to err on the side of stringency -- tilting the balance of risks towards contraction, in order to achieve faster adjustment. As governments assume command of the technical analysis, the underlying judgments can shift, and more attention can be paid to devising strategies for "adjustment with growth." In conjunction with appropriate structural reforms, using a macroeconomic consistency model to improve monetary and fiscal policy management is ultimately pro-growth, pro-job-creation, and pro-poor.

- Financial programming is too aggregative to take into account important structural constraints in our economy. In many respects, the "structuralist" critique raises valid points. For example, financial programming models rarely incorporate cost-push effects of rising interest rates. Also, by focusing on financial flows, the models can give a misleading or incorrect picture of real-side effects on variables like employment, real wages, and production. But one must not lose sight of the fact that different models serve different purposes. The purpose of financial programming is to provide a *macroeconomic framework* ensuring that monetary targets are consistent with growth and inflation objectives, that the budget program is compatible with projected financing, and that balance of payments conditions are sustainable. Other analytical tools can be used for the design of structural and sectoral policies. Economists who implement a financial program must be sensitive, however, to local conditions in setting parameters values. These include the responsiveness of imports and exports to changes in the exchange rate, the structural links between depreciation, inflation, and interest rates, and the relationship between trade performance and revenues. While GDP growth is usually exogenous to the model, the estimates should seriously take into account structural factors such as real interest rates, the real exchange rate, and real growth of credit to the private sector. These and other structural refinements can be incorporated into the analytical framework over time.

SUMMARY AND CONCLUSIONS

This paper has outlined the nature of "financial programming" and explained the importance of the methodology as a standard tool of macroeconomic policy management, with an emphasis on local control. Among the main points, I would highlight the following:

- Financial programming is a quantitative approach for determining monetary and fiscal targets which are *consistent* with designated macroeconomic objectives and projected values of key parameters.

- The main *objectives* usually include target values for growth, inflation, and the accumulation of foreign exchange reserves.

- The financial program derives monetary targets from simple accounting identities, given the designated objectives and assumptions. The model matches monetary targets to projected sources of money growth using the monetary survey as the framework for analysis. The allowable amount of net bank credit to government is the balancing item.

- The monetary analysis is combined with projections of non-bank financing and an estimate of net foreign financing (consistent with external balance), to derive a target budget balance. Combined with a projection of domestic revenues, this determines the government expenditure targets for the program period, consistent with the overall macroeconomic objectives.

- Applications of the general framework can be very simple or very complicated; relatively simple versions can easily be implemented.

- Viewing the model as a straightforward consistency exercise is deceiving, however, because there is a great deal of *uncertainty, discretion, and judgement* in setting the parameter values which determine the fiscal and monetary targets.

- For this reason, governments need to assume ownership of the analytical framework, and bring their own analysis to the bargaining table.

The last points bear emphasis. Every parameter in the model is a potential issue for negotiation, within a range of technical uncertainty. No one can "know" the future parameter values with precision, particularly in countries where data quality is low and economic relationships have been unstable. Yet parameter values determine the results, with important real-world effects on the level of expenditure for public services, the pace and direction of tax reform, the growth of money and credit, and the overall stance of monetary and fiscal policy. As a corollary, missed benchmarks may reflect problems with the assumptions used to derive policy targets, rather than mismanagement. In an unstable economic environment, where major adjustments are being pursued, there is a high degree of uncertainty in setting parameter values even over periods as short as three to six months. Thus, the macroeconomic framework should be reassessed on a regular basis, in light of the latest information.

Financial programming is not a mechanical process, and since the results have a large effect on the economy, governments throughout the region would be well advised to strengthen their capacity for implementing the methodology as a basic tool for macroeconomic policy management. This will also reduce the extent to which programs are designed and imposed "from Washington."

Effective implementation requires a strong commitment to macroeconomic stability at the highest levels of government. On the technical side, it also requires serious attention to database development; adoption of new procedures and assignments within the central bank; the establishment of close operational links with liquidity managers in the central bank and budget managers at Treasury; and technical training to ensure that the methodology is deeply understood by economists involved in the process.

Once financial programming is integrated into the policy process, the technical analysis can provide authorities with a powerful tool for achieving macroeconomic stability, as a vital pre-requisite for promoting investment, efficiency, growth, improved public services, and above all, the alleviation of poverty.